

**A REPORT TO THE LEGISLATIVE COUNCIL AND
THE SENATE AND HOUSE INTERIM COMMITTEES
ON INSURANCE AND COMMERCE
OF
THE ARKANSAS GENERAL ASSEMBLY
(ACT 796 of 1993 and ACT 1143 of 1997)**

**ANNUAL STUDY OF THE WORKERS' COMPENSATION
INSURANCE MARKET IN ARKANSAS**



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Approved by: Allen Kerr, State Insurance Commissioner

Date Submitted: September 1, 2018

REPORT TO THE LEGISLATURE ON ACT 796 OF 1993 THE STATE OF THE WORKERS' COMPENSATION MARKET FOR YEAR ENDING 2016

Previous reports to the Legislature have discussed in detail the condition of Arkansas's Workers' Compensation marketplace prior to the passage of Act 796 in 1993, and subsequent to the changes brought about because of Act 796.

Arkansas continues to enjoy a competitive workers' compensation market with the continuing effects of Act 796 of 1993.

In the most recent data available, Arkansas' combined ratio decreased to 72.8% ranking it among the lowest of any state for which Arkansas's statistical agent, the National Council on Compensation Insurance (NCCI), compiles loss data. In 2017, NCCI filed for decreases in the voluntary market loss costs of -8.4% and in the assigned risk plan rates -10.6%. In 2018 the NCCI filed for decreases of -15.4% for the voluntary market loss costs and -14.9% for the assigned risk market premiums. Several factors and trends in the industry may affect future rates. These factors include changes in claim frequency, increased medical costs, increasing prescription drug utilization, increased reinsurance costs, and catastrophe loading for potential terrorism losses.

CONTINUED RATE IMPACT OF ACT 796 OF 1993

Arkansas's voluntary workers' compensation market would have disappeared and many employers would have found themselves unable to afford workers' compensation coverage, facing the choice of either closing down their business or operating outside the law, had Act 796 not become reality.

The impact of the Act on workers' compensation premiums is clear and significant. Prior to its enactment rates were increasing significantly. For example, for both the voluntary market and the assigned risk plan, rates in 1991 and 1992 increased 15% and 18% respectively. Passage of the Act forestalled anticipated rate increases in 1993 and 1994, with 1993 being the first year in the last ten in which there was no rate increase. 1993 and 1994 were years of market stabilization, and subsequent years have seen significant rate reductions in both the voluntary market and the assigned risk plan. Year 2001 saw our first increase in the assigned risk plan rates while experiencing a decrease in the voluntary market. In 2016, Arkansas had the lowest loss costs in the region per \$100 of payroll, \$0.57, compared to the regional average loss cost of \$0.81 and the countrywide average loss cost of \$1.15. The Arkansas average rates in 2017 were -72.8% from 1995 when the law changes went into effect. There are still positive effects from this Act that benefits Arkansas employers.

Year	Voluntary Market	Assigned Risk Plan
1993	0.0%	0.0%
1994	0.0%	0.0%
1995	-12.4%	-12.4%
1996	-8.0%	-3.7%
1997	-4.7%	-7.6%
1998	-9.1%	-8.2%
1999	-4.1%	-3.0%
2000	-4.5%	-2.0%
2001	-7.5%	-1.9%
2002	-4.5%	-1.9%
2003	1.8%	-5.5%
2004	0.5%	-5.1%
2005	-1.5%	-2.8%
2006	-0.5%	-2.0%
2007	-5.4%	-6.8%
2007 (effective 1/1/08)	2.7%	2.7%
2008 (effective 7/1/08)	-12.8%	-13.8%
2009	-7.0%	-6.4%
2010	1.9%	4.5%
2011	-5.8%	-9.7%
2012	-4.1%	-4.8%
2013	-7.4%	-6.7%
2014	-1.4%	-8.5%
2015	-2.1%	-3.0%
2016	-4.3%	-1.6%
2017	-8.4%	-10.6%
2018	-15.4%	-14.9%

PAYROLL AND EXPERIENCE MODIFIER

Reported payroll in Arkansas continues to increase while premiums for insureds continue to decrease. In 2017 the average experience modifier decreased slightly to 0.934 from 0.947. The 2017 countrywide average experience modifier is 0.947. Please refer to Exhibit “A” for additional statistical information regarding premiums.

ASSIGNED RISK PLAN

The assigned risk plan has seen a history of decline in population since the passage of Act 796 except for a gentle upward trend during 2002 through 2004. It is down from a record high of \$150,000,000 in 1993, but up from low of \$6,566,275 in September 2000. Voluntary carriers continue to tighten underwriting and maintain their minimum premiums. The assigned risk

estimated premium volume through June, 2018 was \$22,148,541 as compared to \$21,571,318 for 2017. As of the June, 2018, small premium employers (less than \$2,500 in annual premium) constituted approximately 72.2% of the plan policy volume with an average of \$1,040 in premium per policy. Average plan premium per policy as of June, 2018, was \$3,008 for all 1,730 policies in the plan. The top five business classifications seeking coverage in the assigned risk plan were involved with the construction industry.

In 2008, NCCI filed a Voluntary Coverage Assistance Program (VCAP), which has helped to remove some employers from the assigned risk plan by allowing voluntary carriers to file their underwriting guidelines for comparison to new applications submitted. When an application is received by NCCI, it is compared to the filed guidelines and if the risk appears to meet a company's guidelines, the application will be forwarded to the agent/insurer to determine whether they will make a voluntary offer of coverage. This program was approved effective October 1, 2008. As of the quarter ending in June, 2018, 64 employers were removed from the assigned risk plan saving those employers, on average 5.79% in premium.

PLAN ADMINISTRATION/SERVICING CARRIERS

The NCCI is an "Advisory Organization" licensed in Arkansas to assist its member insurers with ratemaking and data collection activities. Effective July 1, 2017, the Commissioner re-appointed NCCI as Administrator for the Arkansas assigned risk plan until at least July 1, 2020.

Arkansas participates in the oversight of the market and the NCCI through a multi-state working group of the National Association of Insurance Commissioners (NAIC). The working group monitors data reliability and any other issues that arise involving the market.

In recent years, Arkansas has also participated in a multi-state examination of the NCCI in its role as an advisory organization licensed pursuant to Ark. Code Ann. §23-67-214. Participation in the examination task force, and periodic reviews of this nature, function to assure the quality of the data, as well as presenting the opportunity to improve existing systems and procedures. An advisory organization examination is designed to find concerns with statistical reporting and error correction. These concerns are remedied and monitored by a working group of the National Association of Insurance Commissioners (NAIC). The exams are to assure the errors never become significant enough to affect the overall reliability of the data reported by the NCCI for the State of Arkansas. NCCI's most recent examinations showed no significant issues.

The location of an office in Little Rock (mandated by 1993 legislation) continues to resolve many policy related service problems and provides Arkansas agents and insureds easy, immediate access to responsive company personnel. The effectiveness of this office is apparent in the reduction of the number of complaints received by the Insurance Department and the reduction in the number of appeals reaching the Appeals Board. The NCCI personnel assigned to the office are knowledgeable and committed to providing excellent service.

Attached are Exhibit "A" entitled *State Advisory Forum 2018* and Exhibit "B" entitled *Arkansas Residual Market 2nd Quarter 2018 Status Report*; and the exhibits are prepared by the NCCI and provide detailed information on risk profiles such as average premium size, top ten

classifications by code and by premium, and a list of contacts within NCCI for specific areas of concern.

NCCI provides, at no charge to the agent, the option to submit assigned risk applications online. Upon successful submission, the customer receives a confirmation code and application identification number for reference. There are significant savings to the plan when an application can be processed electronically. Arkansas agents have been extremely responsive to this initiative with 97% of applications being submitted online in 2016.

The Annual Servicing Carrier Performance Review conducted by NCCI reveals either “Commendable” or “Satisfactory” scores for all areas for Arkansas’ servicing carriers. For the period commencing January 1, 2017 to December 31, 2019, the carriers are Travelers, Technology and Liberty Mutual.

SUMMARY OF INSURANCE DEPARTMENT’S CRIMINAL INVESTIGATION DIVISION

Before the passage of Act 796 of 1993, there had never been a criminal prosecution in Arkansas for workers’ compensation fraud committed by employees, employers or healthcare providers.

Act 796 of 1993 created the Workers’ Compensation Fraud Investigation Division and made any type of fraud committed within the workers’ compensation system a Class D felony (maximum six years and/or \$10,000 fine). The Division was renamed the Criminal Investigation Division during the 2005 Legislative Session to come in line with its present mandate to investigate not only workers’ compensation fraud but all types of insurance fraud.

Fraud in the workers’ compensation system was perceived to be epidemic. Since the majority of employers were in the “plan,” there was little, if any, incentive for thorough investigation of possibly fraudulent insurance claims and few consequences to those caught making intentional misrepresentations. Act 796 changed the entire landscape of the workers’ compensation system, particularly about the detection, prevention and prosecution of workers’ compensation fraud. The actual prosecution of a workers’ compensation fraud case is contingent on many factors.

Key among those factors is the elected prosecutor’s willingness to carry a case forward. If the information provided from an investigation is not enough to meet the standards found at Ark. Code Ann. § 11-9-106 for conviction, a prosecutor will be unwilling to pursue the case. Local law enforcement agencies often do not have the resources to investigate workers’ compensation fraud. Fortunately, the investigative authority of the Criminal Investigation Division allows the Arkansas Insurance Department to supplement these often under-funded local agencies. However, the Division is no longer dedicated to a single purpose for complex investigations, as it is tasked to investigate all insurance fraud under Title 23 and not just workers’ compensation fraud under Title 11. Consequently, even though Workers’ Comp Fraud is still an important and integral part of the Criminal Investigation Division, it is now less than ten percent of the referrals that come into CID as compared to insurance fraud as defined under Title 23. As all of these complex cases evolve, they frequently require investigators to work through a myriad of leads to

develop a case. Occasionally, even with the Division's dedicated resources, there simply is not enough information for a prosecutor to prosecute the crime.

While the number of actual prosecutions varies from year to year, the possibility of investigation and prosecution is a constant deterrent. Any lessening of the Division's enforcement powers would likely result in a re-emergence of both frequency and severity of fraud committed by employees, employers, and healthcare providers.

The cases represented by the statistics noted below, which are comparable per capita to those of other states with active anti-fraud efforts, are believed to have had a significant impact on workers' compensation rates in Arkansas, and the deterrent factor has been substantial. In fact, many cases are not carried forward to prosecution. In many instances where there is not enough evidence to actually prosecute the case, the threat of prosecution is enough to get the parties involved to settle the cases outside of court, resulting in restitution for the aggrieved parties. While not technically prosecutor wins, these cases result in positive outcomes for injured workers in the state.

In the 2017 reporting period, there were 40 workers compensation referrals received by AIDCID. Of those referrals nine developed into investigated cases of which six were closed. One case was referred for prosecution, but the locally elected prosecutor declined to file charges. One case was successfully prosecuted and one case remains with an external prosecutor. Since the creation of the division in 1993, 165 cases have been referred for prosecution, which resulted in 122 convictions. Out of these 165 cases, only three prosecutions have resulted in acquittals. In the remaining cases, the charges were not filed by the locally elected prosecutors.

2017 LEGISLATIVE ACTIVITY OF THE 91ST GENERAL ASSEMBLY WITH REGARD TO WORKERS' COMPENSATION

There were three Acts from legislative activity with regard to workers' compensation in 2017.

Act 658. Provides for the treatment of rabies under workers' compensation by requiring an employer to promptly provide reasonably necessary medical treatment to an injured employee who is exposed to rabies.

Act 804. Amended existing law regarding contractors who are required to be licensed to obtain and maintain workers' compensation coverage. This law removed the term "residential building contractor."

Act 1058. A.C.A. §11-9-805 was amended to provide for partial settlements of workers' compensation claims, in addition to full settlements as before. After the amendment, if a claimant is determined to be eligible for Medicare, the parties may now petition the Commission for a partial settlement of all issues other than the claimant's future medical treatment. The parties may now petition for a settlement of the indemnity portion of a claim and leave open the injured employee's right to continued future medical treatment at the employer's expense.

The parties also retain the ability to petition the Commission for a full and final settlement of all issues involved in a claim.

**SELECTED WORKERS' COMPENSATION DECISIONS
FISCAL YEAR 2017
ARKANSAS SUPREME COURT**

Attorney's Fees

Arkansas Game and Fish Commission v. Oscar Gerard, Jr., 2018 Ark. 97 (2018). This case addressed the issue of attorney's fees payable in a workers' compensation claim when the respondent insurance carrier claimed an offset pursuant to A.C.A. §11-9-411(Repl. 2012).

The injured employee (claimant) sustained a compensable on-the-job injury on May 12, 2002. Appropriate claim-related medical expenses and indemnity benefits were paid. In 2015, the claimant sought additional temporary total-disability benefits, alleging that he was entitled to either permanent and total disability benefits or alternatively wage-loss disability benefits as a result of his work-related injury. The claimant asserted that AG&F should not be entitled to any offset pursuant to Ark. Code Ann. § 11-9-411 (Repl. 2012).

Following a hearing, an ALJ issued an opinion finding, among other things, that the claimant established his entitlement to a 35 percent wage-loss disability award and that AG&F was allowed to take credit for a previous 10 percent wage loss paid. The ALJ further found that AG&F was entitled to the offset provided for in Ark. Code Ann. § 11-9-411 because "it appears to this examiner that Mr. Gerard's Arkansas Public Employment Retirement System ("APERS") retirement benefits rate of \$2,424.67 to \$2,479.79 per month would far exceed his workers' compensation benefit rates of \$277.00 or \$369.00 per week." The ALJ also found that Gerard's attorney was entitled to a 25 percent fee on the indemnity benefits awarded to Gerard, "one-half of which is to be paid by the claimant and one-half to be paid by the respondents in accordance with Ark. Code Ann. § 11-9-715 [.]" AG&F tendered its half of the attorneys' fees. The parties did not appeal this order.

The claimant's attorney later filed a motion to enforce payment of the attorneys' fees. The motion requested that AG&F pay the remaining one-half, the claimant's one-half, of the attorneys' fees. AG&F responded that it had paid its one-half of the attorneys' fees and pursuant to Ark. Code Ann. § 11-9-715(a)(2)(B)(i), the claimant was responsible for the other half. The ALJ found that the "deduction of the claimant's one-half of the controverted attorneys' fees out of compensation payable to the claimant under Arkansas Code Annotated section 11-9-715(a)(2)(B)(i) precedes any reduction in benefits provided for under Arkansas Code Annotated section 11-9-411(a)(1)" and ordered AG&F to pay Gerard's one-half of the fees to Gerard's attorney out of the benefits awarded to the claimant. AG&F appealed to the Full Commission, and the Commission affirmed and adopted the ALJ's decision. AG&F appealed to the Arkansas Court of Appeals, which reversed the Full Commission's decision. *Arkansas Game & Fish Comm'n v. Gerard*, 2017 Ark. App. 523, at 1-4, 530 S.W.3d 887, 888-89. On December 14, 2017, the Arkansas Supreme Court granted the claimant's petition for review.

The Arkansas Supreme Court affirmed the decision of the ALJ and the Arkansas Workers' Compensation Commission and ordered AG&F to pay the claimant's one-half portion of the attorney's fee. The Court stated in its Opinion that "Simply put, the purpose of the

Workers' Compensation Act is to take care of the injured employee and pay the compensation. We reject AG&F's assertion that the offset statute takes precedence over the attorney's fees." A dissent by Chief Justice Kemp noted "section 11-9-715 and section 11-9-411 should be read harmoniously. Arkansas Code Annotated section 11-9-715(a)(2)(B)(i) expressly provides that each party is responsible for one-half of the attorney's fees, and the claimant's one-half is paid out of the "compensation payable" to the claimant. Thus, if the compensation payable is zero, because section 11-9-411's offset eliminates AG&F's obligation to pay any additional benefits to

Gerard, then deducting from zero still leaves AG&F with no responsibility to pay Gerard's share of the attorney's fees. Further, there is no statutory provision for employers to be fully responsible for attorney's fees, and there is no provision that permits them to seek reimbursement from APERS, as the majority suggests. The majority bases its decision on language that simply isn't in the workers'-compensation statutes. This court cannot rewrite section 11-9-715(a)(2)(B)(i) to state that an employer must pay 100 percent of the attorney's fees when no compensation is due to the claimant."

Scheduled vs. Unscheduled Injuries

Multi-Craft Contractors, Inc. v. Rick Yousey, 2018 Ark. 107 (2018). In this case, the claimant was severely injured and sustained a skull fracture and numerous facial fractures, a broken foot and hand, torn rotator cuff, and other injuries. The injuries resulted in the claimant experiencing double vision in his left eye along with severe headaches.

At a hearing the claimant contended, among other things, that his eye/vision injury should be classified as an injury to the body-as-a-whole rather than a "scheduled injury". The Commission found that Yousey was entitled to a permanent anatomical-impairment rating of 29 percent for his brain injury and 24 percent for his left-eye injury, both to the body as a whole.

The Court of Appeals found that "We agree that neuropsychological testing, without more, is not adequate to establish an organic brain injury by "objective findings" within the meaning of Arkansas Code Annotated section 11-9-102. Here, however, Yousey has presented neurological testing and additional medical evidence of his brain injury." As for the claimant's left eye injury, the Court noted that "Based on Dr. Lawton's testimony, there is substantial evidence to support the Commission's finding that Yousey was entitled to a 100 percent loss of vision to his left eye. However, we hold that the Commission erred in converting Yousey's impairment to the body as a whole. As stated above, because Yousey's impairment to his left eye comes within the scheduled-injury category, he is limited to the scheduled benefits. We affirm the Commission's finding of 100 percent impairment to Yousey's left eye but modify the award to reflect that it is a scheduled injury."

ARKANSAS COURT OF APPEALS

Subrogation

Public Employee Claims Division v. Gary Clark and Arkansas Livestock Auction, Inc., 2018 Ark.

App. 215 (2018). In this case, the claimant Clark was seriously injured in 2010 in an on the job accident. A third party action was filed against the facility where he was working at the time of his injury. PECD moved to intervene in the lawsuit and alleged it was entitled to a lien against a portion of the net proceeds of any settlement or judgment in Clark's favor pursuant to Arkansas Code Annotated sections 11-9-410 and 21-5-60. Arkansas Code Annotated section 11-9-410 is a workers'-compensation statute that allows an employer or carrier to recover on its payment of workers'-compensation benefits when an injured employee recovers damages in a tort action against a third party. Arkansas Code Annotated section 21-5-605 establishes PECD as "the unit of state government primarily responsible for the administration of public employee workers' compensation claims in the State of Arkansas." Ark. Code Ann. § 21-5-605(c) (Repl. 2016).

Clark's third party case was ultimately settled for \$325,000.00. A "post settlement hearing" between Clark and PECD was held in May, 2016. In describing the issue before the court, Clark's attorney stated that "at the time we settled this case we deposited into the registry of the establish that he will not be made whole, even by receiving that money."

Clark argued that PECD could not recover anything because he had not been made whole by the settlement and workers'-compensation payments he had received. PECD contended that its entitlement to a lien was absolute and that the made-whole doctrine did not apply. The court took the matter under advisement and subsequently entered an order finding that PECD was entitled to receive two-thirds of the deposited funds after payment of costs of collection. The court calculated this amount to be \$23,345. On appeal, PECD argued that the circuit court's award is contrary to the applicable law and that it is entitled to recover a greater amount. As it did below, PECD relied on Arkansas Code Annotated section 21-5-605(f)(3)(B) which states "the rights of the public employee, or his or her dependents, the public employer, and the division shall be governed by the provisions of § 11-9-410, provided, the rights of the public employer and the division in and to amounts received from the third party by the injured public employee, or his or her dependents, as a result of either settlement with or judgment against the third party shall be absolute."

The Court reversed and remanded the case back to the Circuit Court finding that "Although the parties and the court acknowledged that only \$75,000 was deposited with the court, there is no reason on the record before us that PECD's recovery should be limited to an amount calculated from the deposited sum as opposed to the entire settlement of \$325,000 as provided in section 11-9-410. Accordingly, we reverse and remand for further proceedings consistent with this opinion." **A.C.A. §11-9-505(a)(1)**

Arkansas Dept. of Correction v. Christie Dawn Jennings, 2017 Ark. App.446 (2017). The claimant, Jennings, sought benefits pursuant to A.C.A. §11-9-505(a)(1) due to the ADC's refusal to return her to work. The ADC controverted the claim. After a hearing, the ALJ ruled in favor of the ADC, finding that Jennings had not proved that she was entitled to benefits. In an opinion dated October 25, 2016, the Commission reversed the ALJ and awarded Jennings benefits under section 11-9-505. The Commission awarded Jennings her average weekly wages for a period beginning November 10, 2015, and not exceeding one year, benefits not to be subtracted. On appeal, the Court of Appeals affirmed the Full Commission's decision and noted that "We agree with the Commission's findings that allowing an injured employee to "reapply" and "be considered" for employment is not sufficient to meet the statutory requirement

that the employer return the employee to work. That is because the option to “reapply” and “be considered” for employment necessarily involves an element of uncertainty as to the outcome of the application process. Moreover, even if Jennings were rehired, she would have lost credit for the time she had successfully worked during her probationary period, requiring her to start anew. Both the plain language of the statute and its recognized purpose focus on returning an injured employee to work, and we agree with Jennings that reinstatement, rather than reapplication, was required.”

Connie Burke v. Arkansas Dept. of Correction, 2018 Ark. App. 231 (2018). In this case, the evidence demonstrated that the claimant had discussions with ADC personnel and had advised that she would not be returning to her position in security. Burke did not recall ever having a conversation, by email or otherwise, with Kimyata Randall. She also agreed that after she was released by her doctors to return to work, she was not contacted by ADC and asked to return to work. She explained that she had remained off work since being released by her physicians. She also said that she had looked on the Arkansas state-jobs website since then and that it appeared that there were jobs available within her restrictions. She agreed that she had never contacted ADC about going back to work or reapplying for a job. The ALJ and Full Commission denied benefits to the claimant.

The Court of Appeals affirmed and found that “Burke’s argument falters given the Commission’s findings that she was not a credible witness and that there was no credible testimony that there were jobs available within her physical restrictions. The Commission also found that Burke was released without any physical restrictions and made no credible effort to return to work. Without any attempt to return to work, it cannot be said that ADC refused to return her to work. This highlights the primary difference between this case and *Jennings*: in *Jennings*, the claimant requested to return to work and her employer denied her request.”

NATIONAL MARKETS IN GENERAL

While Arkansas continues to experience increases in the average indemnity and medical cost per lost time claim, claims frequency continues to decline resulting a continued decline in rates upon which premiums are based. Arkansas’s market remains strong and competitive.

The attached state of the industry report Exhibit “C” entitled *State of the Line* graphically depicts the sound condition of the workers compensation marketplace; still, the NCCI continues to discover that workers’ compensation results are affected by a number of factors that are having a negative impact on the market:

- lower earnings relating to investments;
- claim costs that are beginning to rise at more rapid rates than in previous years;
- pending proposals for benefit increases;
- challenges to workers’ compensation as an exclusive worker remedy for workplace injury;
- recent federal initiatives that threaten to increase claim costs, broaden compensability definitions, and have the potential to create duplicate remedies;
- reform roll-back proposals in recent state legislative sessions;

- increasing costs of medical benefits; and
- increasing utilization of certain prescription pain medications

The NCCI does point out one favorable development among the negatives. The incidence of workplace injuries continues to fall sharply since the reform efforts of 1993. This means fewer injured workers – the most valuable outcome imaginable for workers, their families, and employers.

CONCLUSION

Absent the reforms encompassed in Act 796 of 1993, it is doubtful Arkansas's employers would now have the option of voluntary workers' compensation insurance. Rather, the assigned risk plan, designed to be a market of "last resort," would have become Arkansas's market of "only resort." The General Assembly is to be highly commended for its leadership in reforming the workers' compensation market in our State while protecting the interests of the injured worker.

Arkansas's employers must have available to them quality workers' compensation products in the voluntary market at affordable prices. The creation of good jobs requires a marketplace where all businesses, regardless of size, can grow. Maintaining a stable workers' compensation system is essential for this growth. The evidence shows the reforms have worked. Frequency has experienced a dramatic decrease and continues that trend. The incidence of fraud has been reduced through high-profile fraud prosecutions, employee compensation rates and benefits have been increased, and workers injured within the course and scope of their employment have received timely medical treatment and the payment of much improved indemnity benefits. Eroding the positive changes incorporated into Act 796 would be counterproductive to continued economic growth and development.

Prepared: September 1, 2018

cc: The Honorable Asa Hutchinson, Governor
 The Honorable Dale Douthit, Chairman, AWCC
 The Honorable Karen H. McKinney, Commissioner, AWCC
 The Honorable Philip Alan Hood, Commissioner, AWCC
 Ms. Barbara Webb, Chief Executive Officer, AWCC
 Ms. Russ Galbraith, Insurance Chief Deputy Commissioner, AID
 Mr. Nathan Culp, Public Employee Claims Division Director, AID
 Mr. Pat O'Kelley, Criminal Investigation Division Director, AID
 Mr. Ryan James, Public Information Manager, AID



EXHIBIT "A"

STATE ADVISORY FORUMS 2018

Arkansas

June 6, 2018

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Arkansas State Advisory Forum

- Future @Work (Video)
- Countrywide Workers Compensation System
- Arkansas Workers Compensation System
- Insurance Commissioner Allen Kerr
- Countrywide and Arkansas Labor Markets
- The Data Connection (Video)
- Legislative Issues
- Opioids and Workers Compensation
- Residual Market: Countrywide and Arkansas



STATE ADVISORY FORUMS 2018

**Future @Work
(Video)**



STATE ADVISORY FORUMS 2018

Countrywide Workers Compensation System

Countrywide Workers Compensation (WC) System— An Overview



Premium decreased slightly in the most recent year



The combined ratio continues to show favorable results



Frequency declined again at the latest point

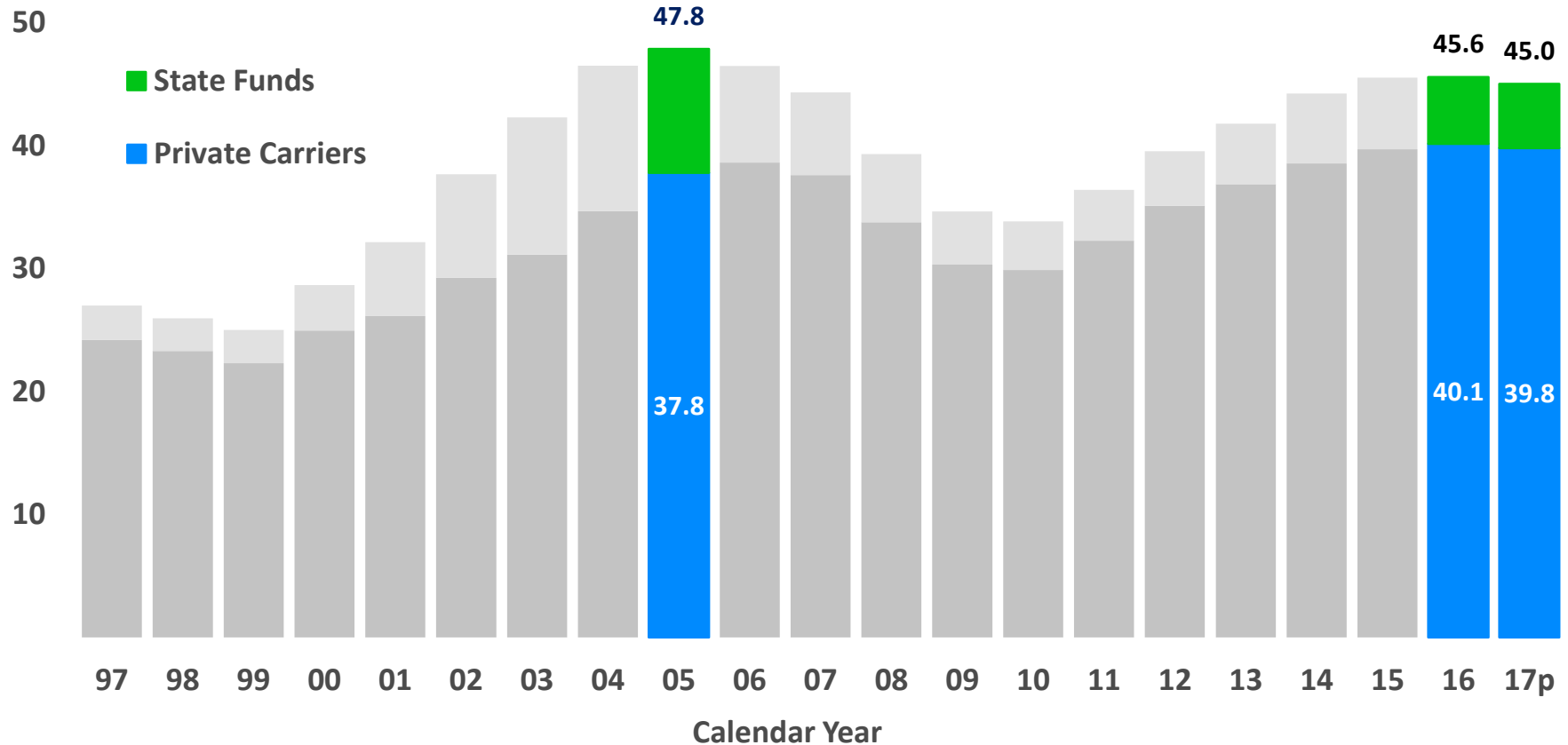


Medical and indemnity severity increased modestly

WC Net Written Premium

Private Carriers and State Funds

\$ Billions



p Preliminary

Source: NAIC's Annual Statement data; includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT

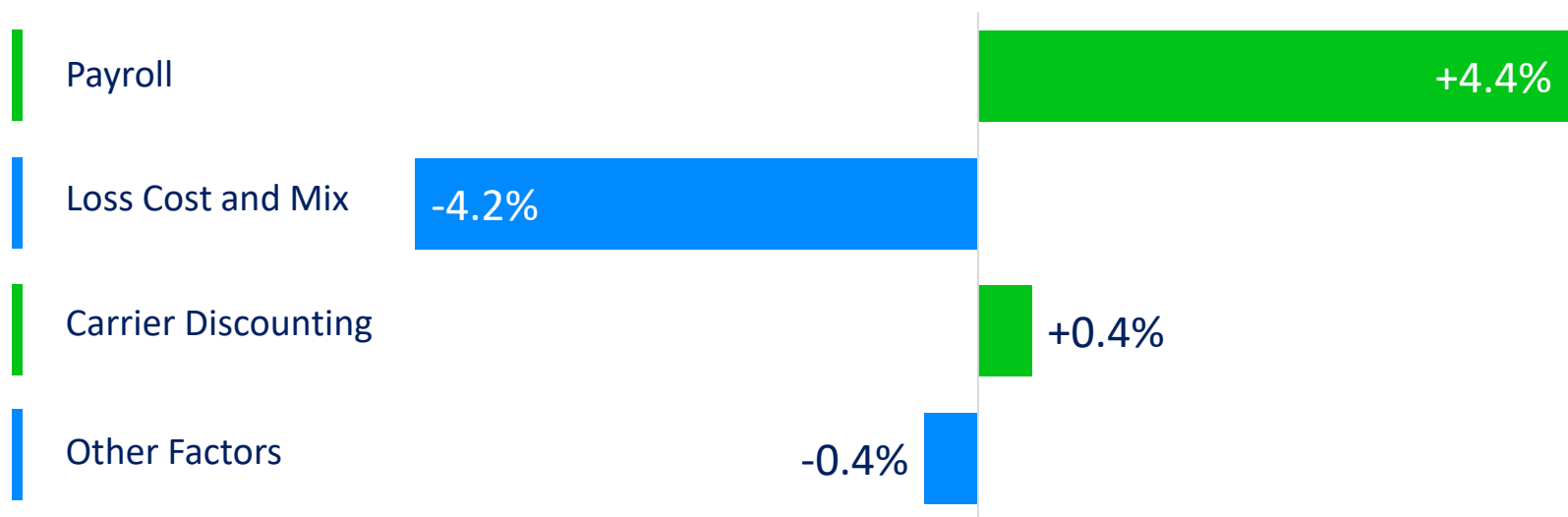
Each calendar year total for state funds includes all funds operating as a state fund in that year

WC Direct Written Premium (DWP) Change by Component

Private Carriers—NCCI States

Change in Direct Written Premium: 0.0%

2017 vs. 2016

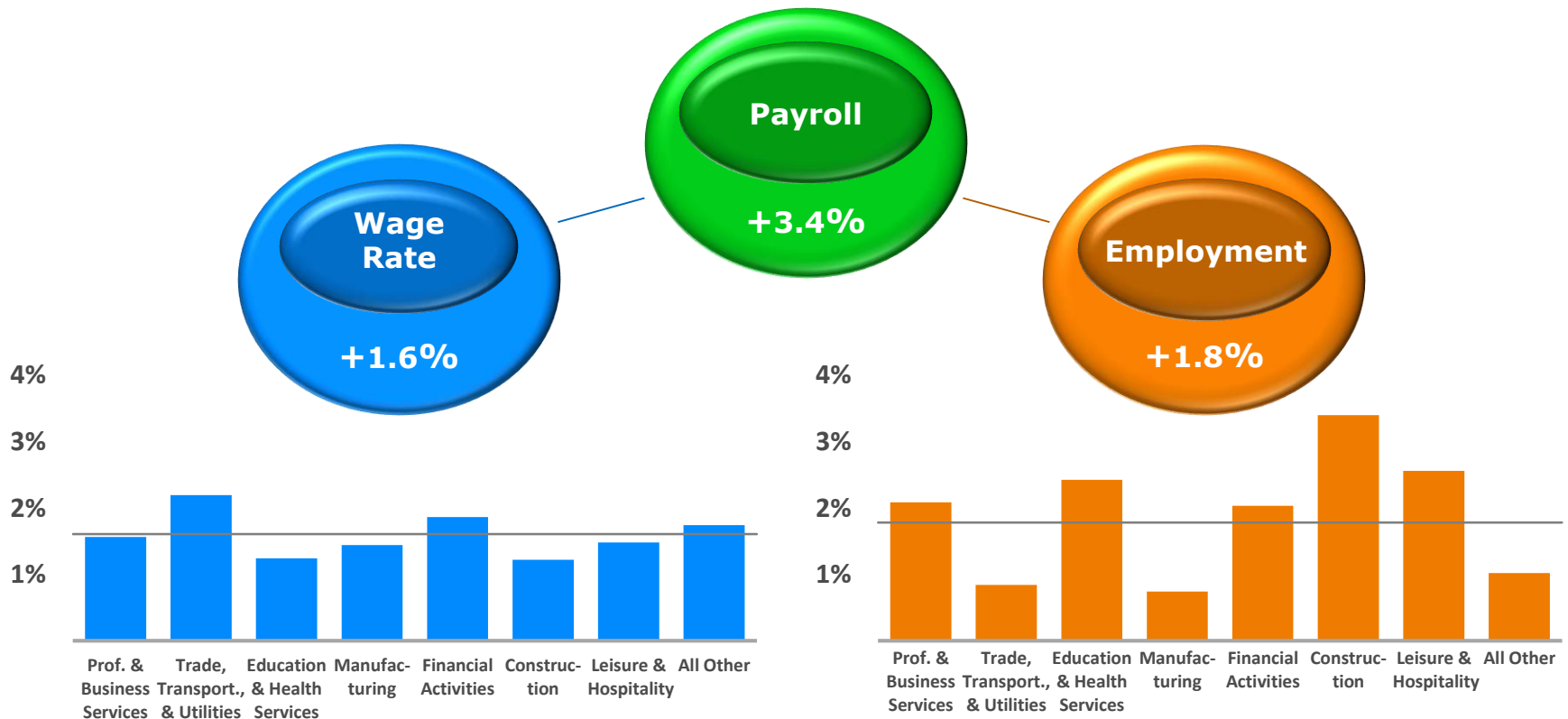


Sources: DWP Change: NAIC's Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services

Components: NCCI's Policy data

Increases in Payroll Continue to Drive Changes in Premium

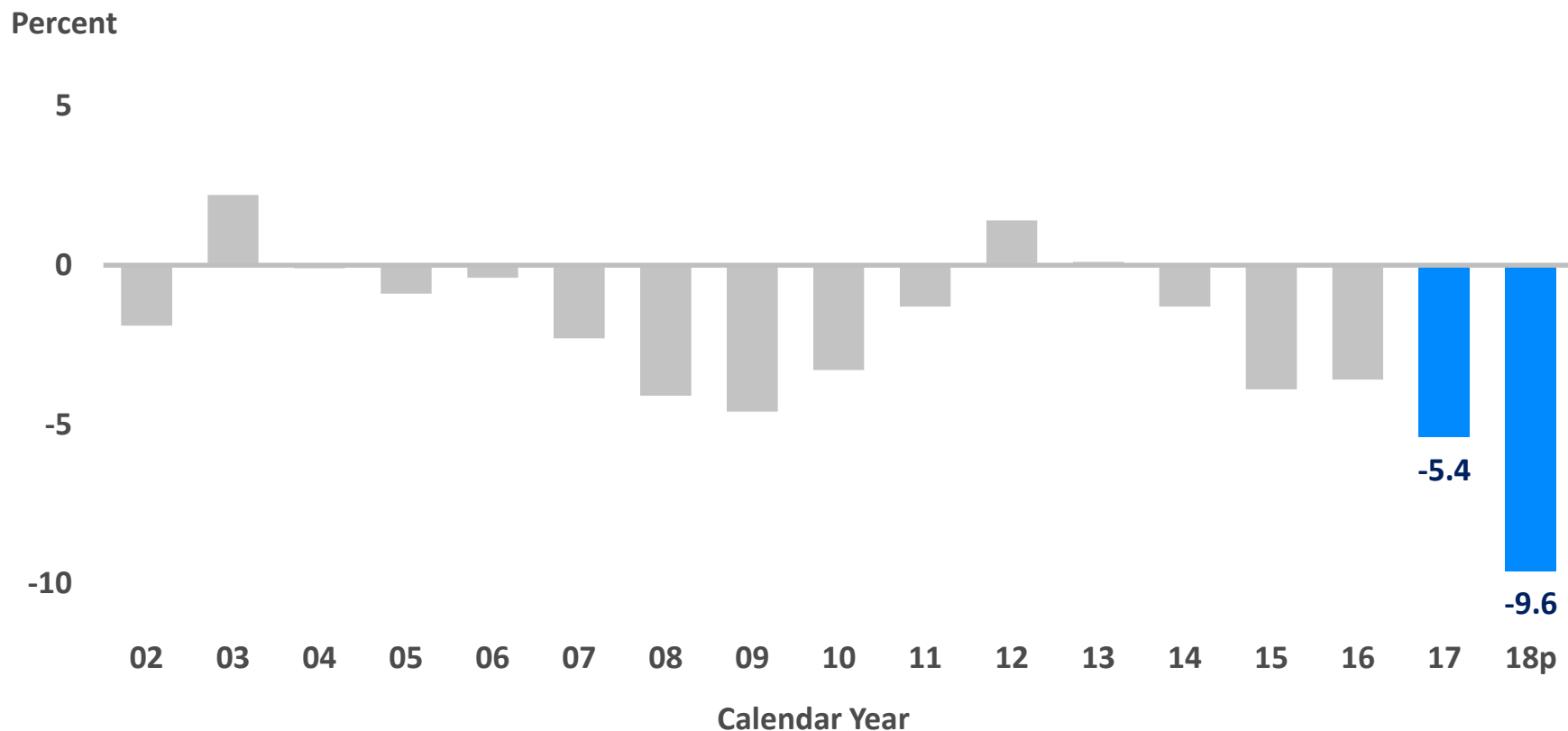
Forecast Change 2016–2017



Sources: Moody's Analytics and NCCI

WC Approved Changes in Bureau Premium Level

Weighted by Effective Date—NCCI States

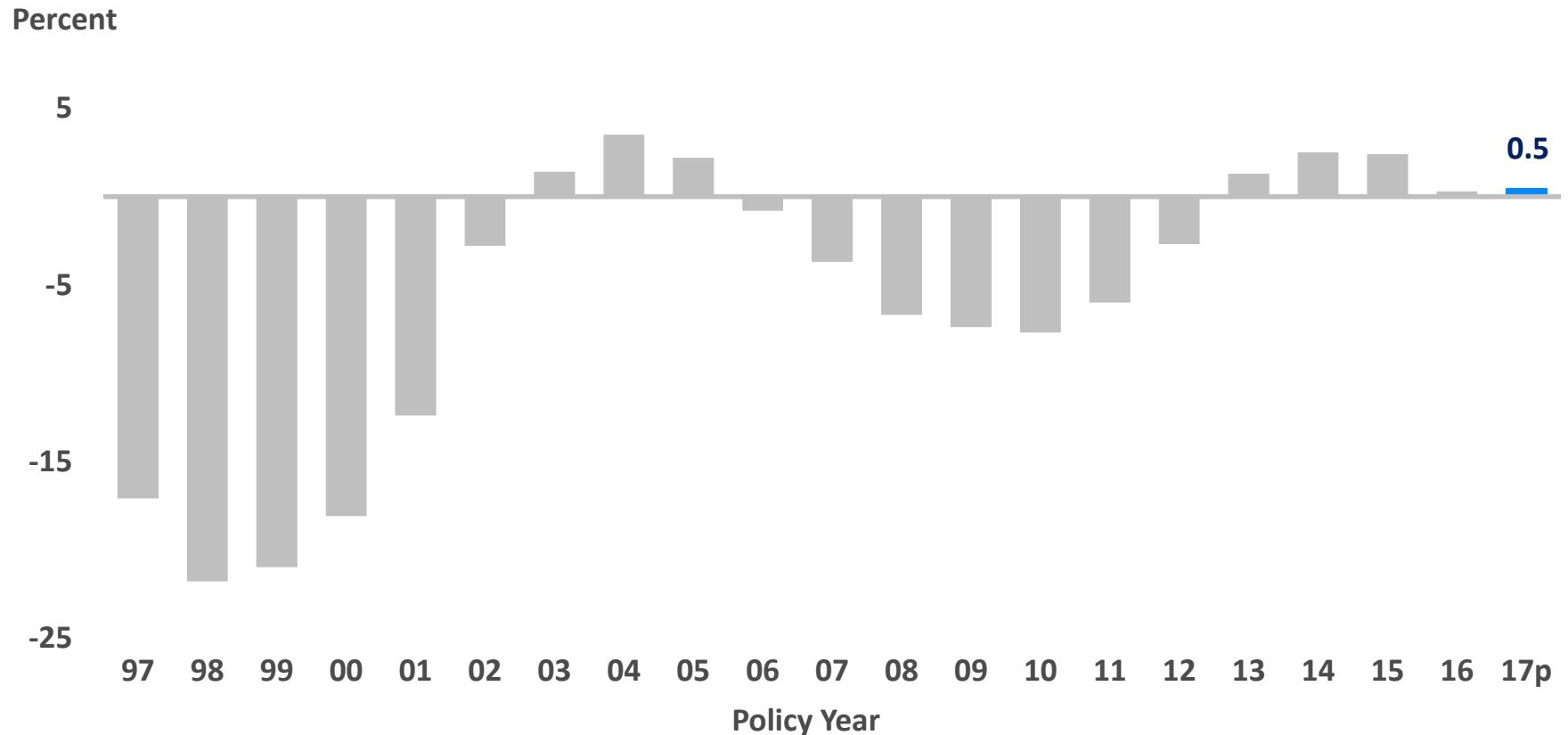


Source: NAIC's Annual Statement Statutory Page 14

Values reflect changes in average premium levels between years, based on approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 5/10/2018
IN and NC are filed in cooperation with state rating bureaus

WC Impact of Discounting on Premium

Private Carriers—NCCI States



p Preliminary

Sources: NAIC's Annual Statement Statutory Page 14 and NCCI's Financial Call data

Rate/loss cost departure reflects carrier departure from NCCI rate level, which excludes a profit and contingency provision and expense constant

Based on data for all states where NCCI provides ratemaking services, excluding TX

WC Impact of Discounting on Premium by Component

Private Carriers—NCCI States

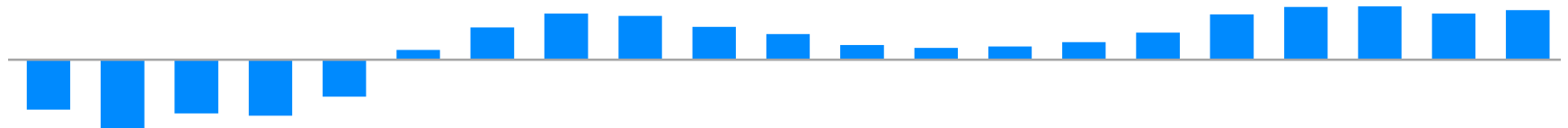
Dividends



Schedule Rating



Rate/Loss Cost Departure



97 98 99 00 01 02 03 04 05 06 07 08 09 10 11 12 13 14 15 16 17p

Policy Year

p Preliminary

Sources: NAIC's Annual Statement Statutory Page 14 and NCCI's Financial Call data

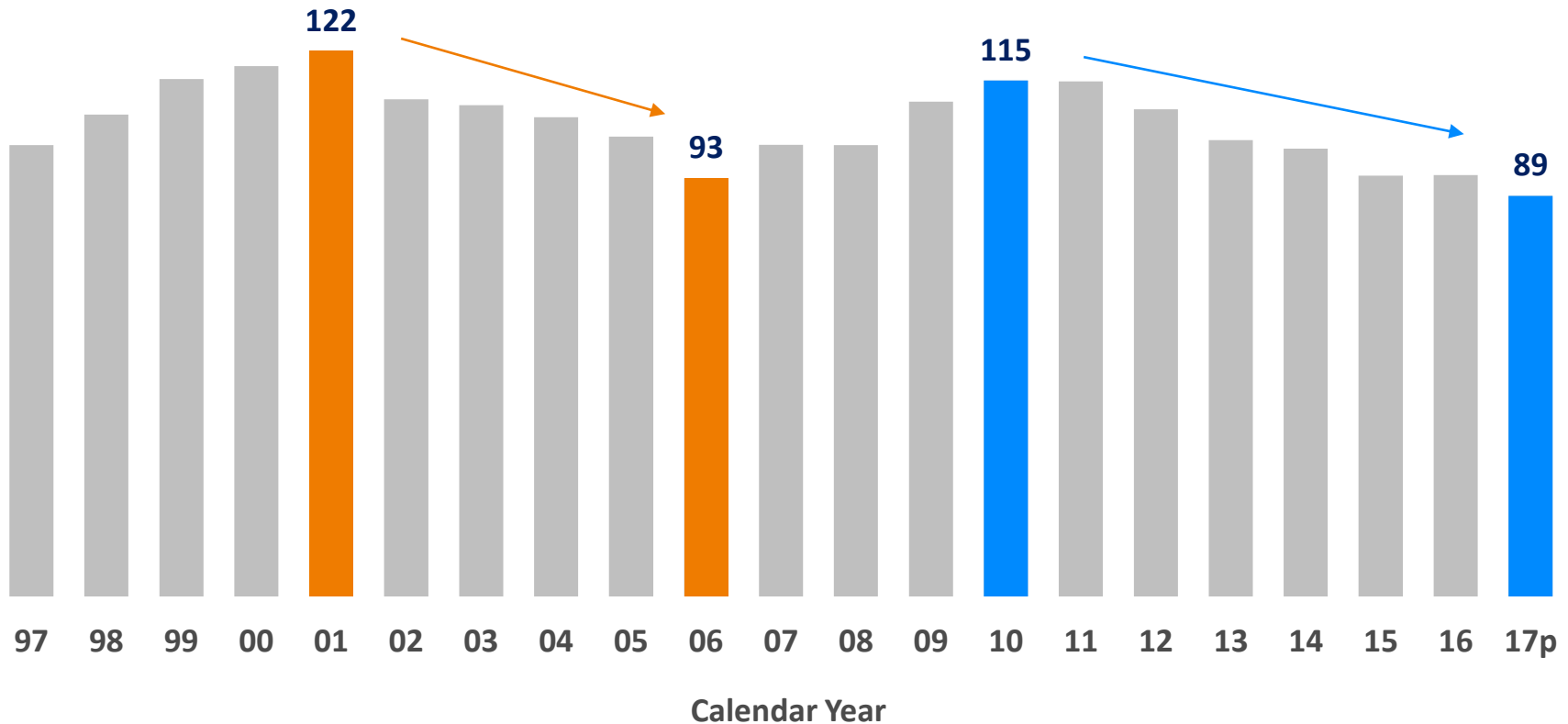
Dividend ratios are based on calendar year statistics

Rate/loss cost departure reflects carrier departure from NCCI rate level, which excludes a profit and contingency provision and expense constant

Based on data for all states where NCCI provides ratemaking services, excluding TX

WC Combined Ratio— Underwriting Gain Achieved Private Carriers

Percent



p Preliminary
Source: NAIC's Annual Statement data

WC Combined Ratio by Component

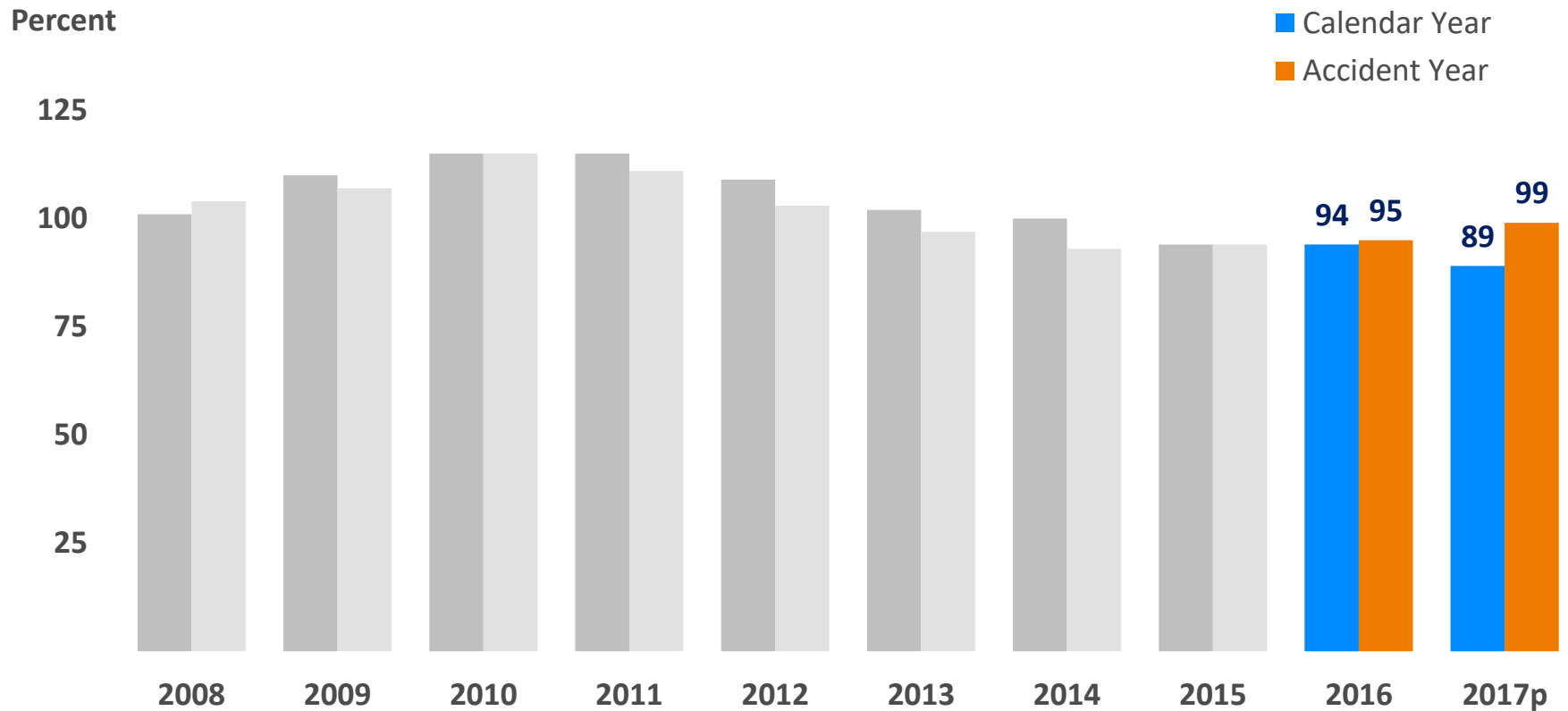
Private Carriers



p Preliminary
Source: NAIC's Annual Statement data

WC Net Combined Ratios

Calendar Year vs. Accident Year As Reported Private Carriers



p Preliminary

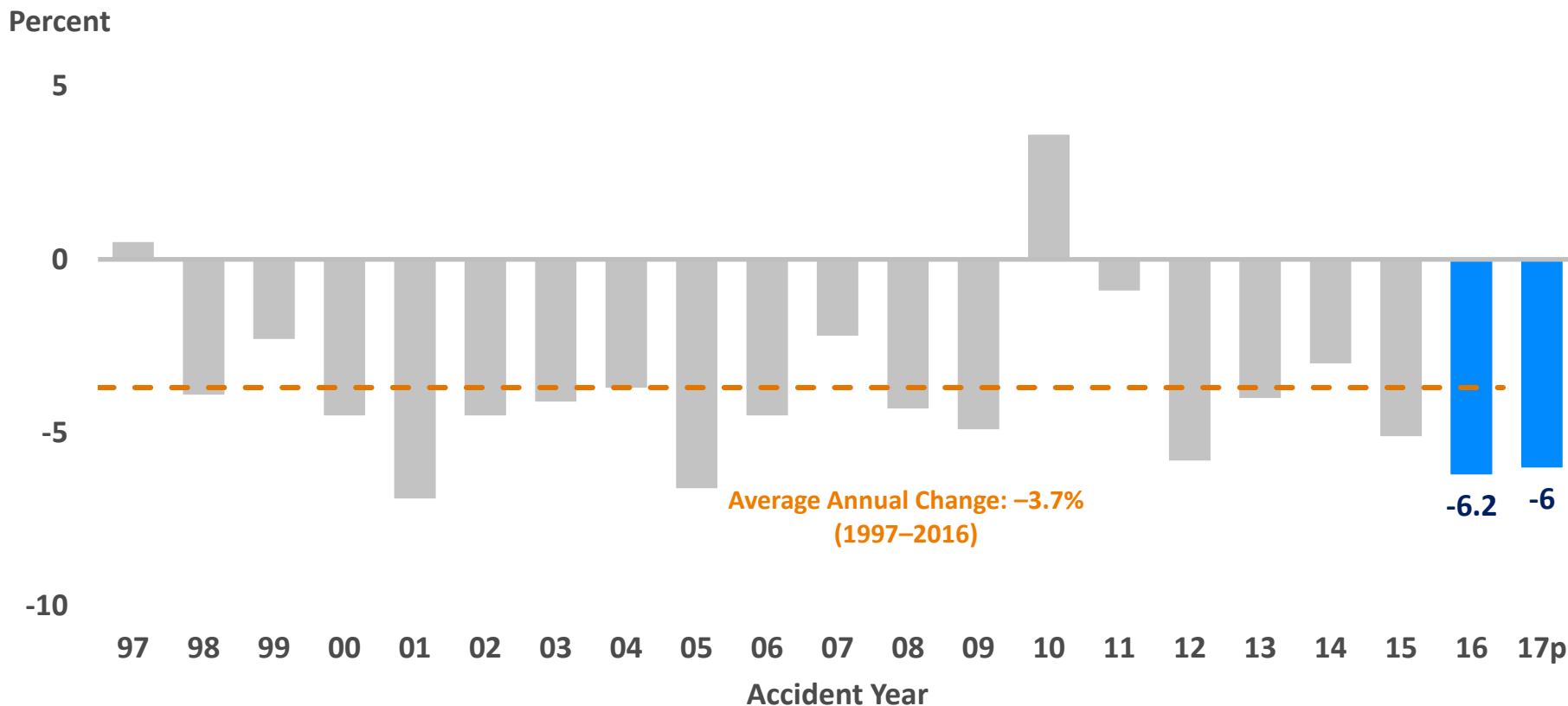
Source: NAIC's Annual Statement data

Accident Year information is reported as of 12/31/2017

Includes dividends to policyholders

WC Lost-Time Claim Frequency

Claims per \$1M Pure Premium Private Carriers and State Funds—NCCI States



2010 and 2011 adjusted primarily for significant changes in audit activity

p Preliminary based on data valued as of 12/31/2017

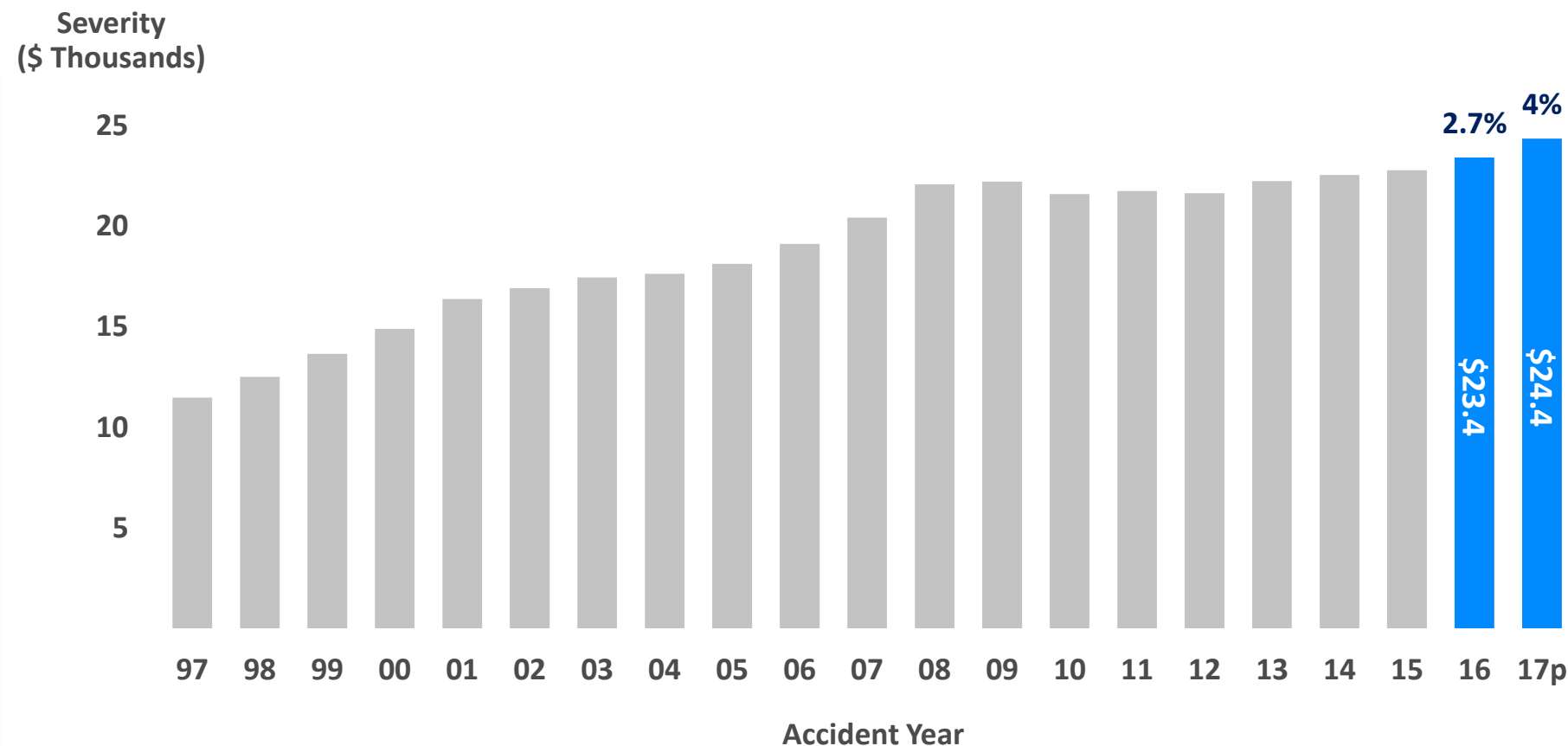
Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2016

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2011

WC Average Indemnity Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary based on data valued as of 12/31/2017

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

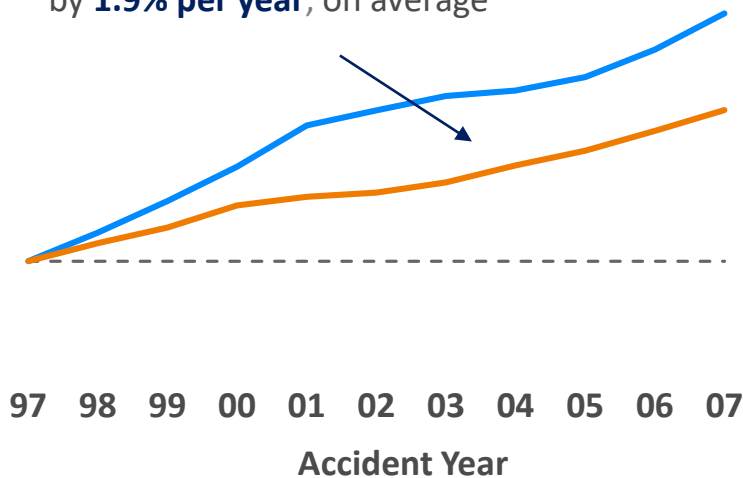
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

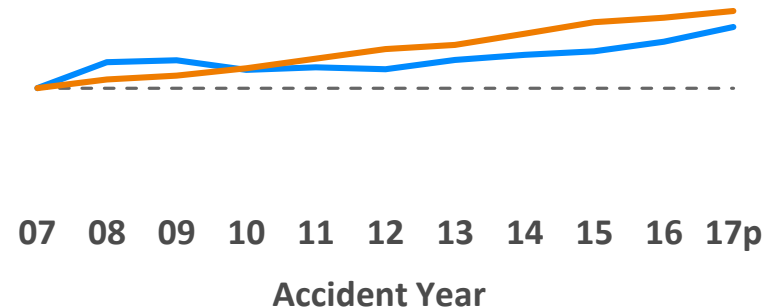
Relative Growth Rates— Indemnity Severity vs. Wage Inflation

Private Carriers and State Funds—NCCI States

Changes in **indemnity claim severity**
outpaced changes in **wage inflation**
by **1.9% per year**, on average



Indemnity claim severity and **wages**
grew at a **similar rate**



p Preliminary based on data valued as of 12/31/2017

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

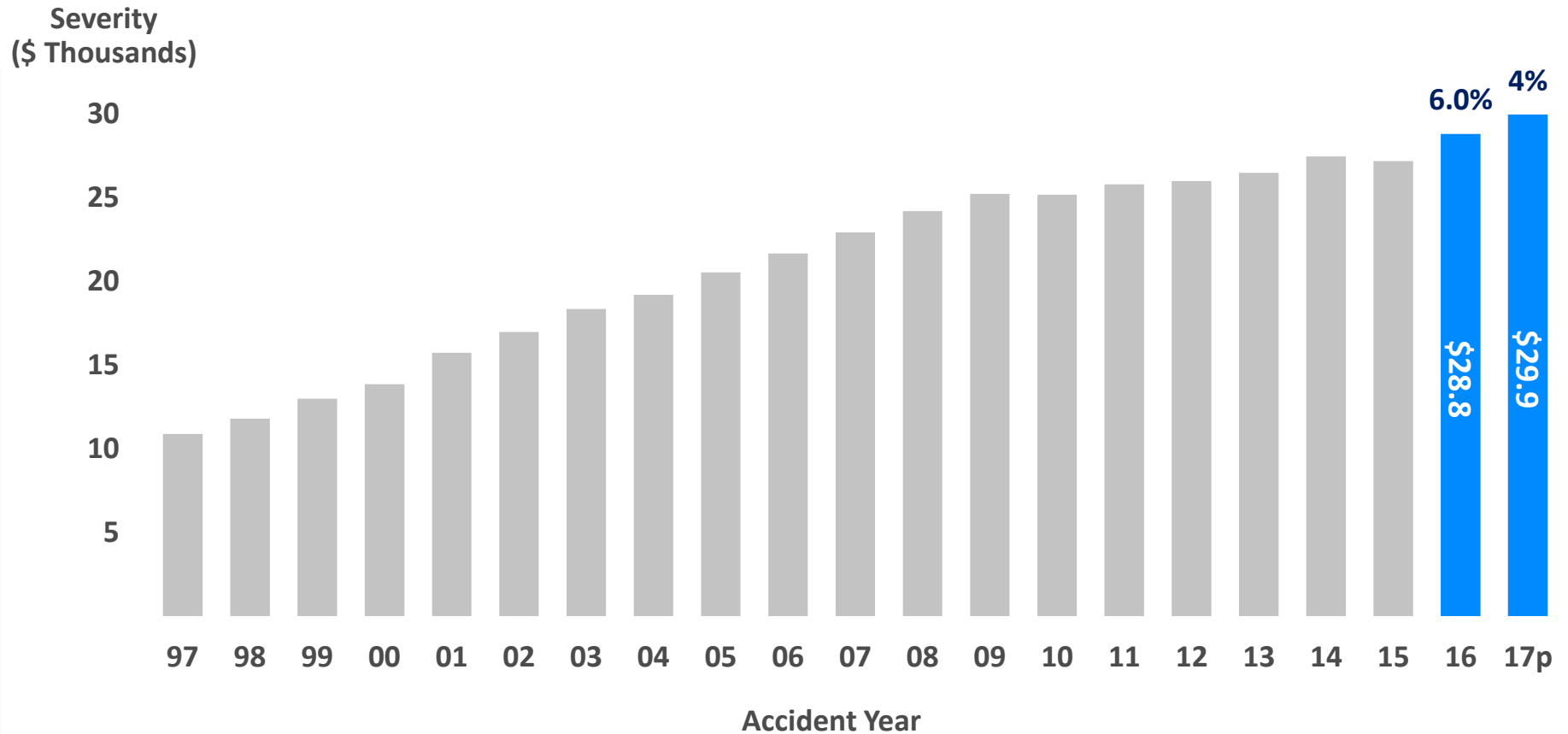
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

US Average Weekly Wage: 1995–2007 and 2012–2016, Quarterly Census of Employment and Wages; 2008–2011, NCCI; 2017p, NCCI and Moody's Analytics

WC Average Medical Lost-Time Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary based on data valued as of 12/31/2017

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

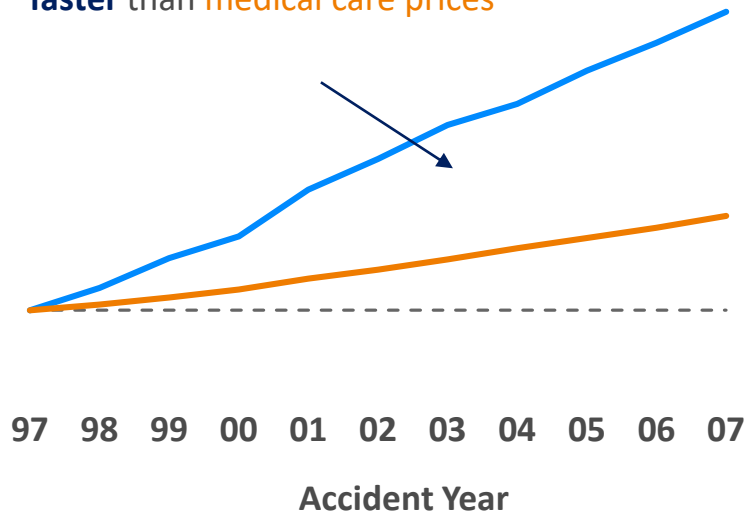
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

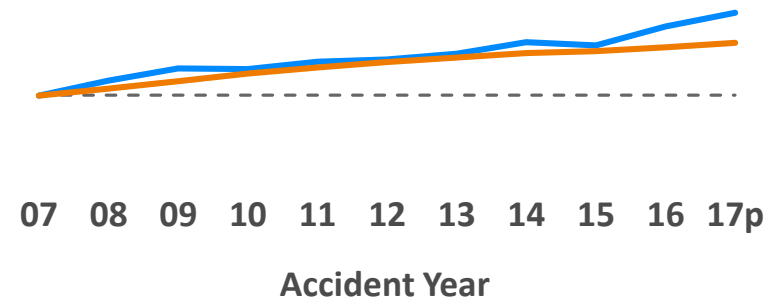
Relative Growth Rates— Medical Severity vs. Price Inflation

Private Carriers and State Funds—NCCI States

Medical lost-time claim severity
grew approximately **4.5%** per year
faster than **medical care prices**



Change in **Medical lost-time claim severity** and **medical care prices**
tracked one another



p Preliminary based on data valued as of 12/31/2017

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

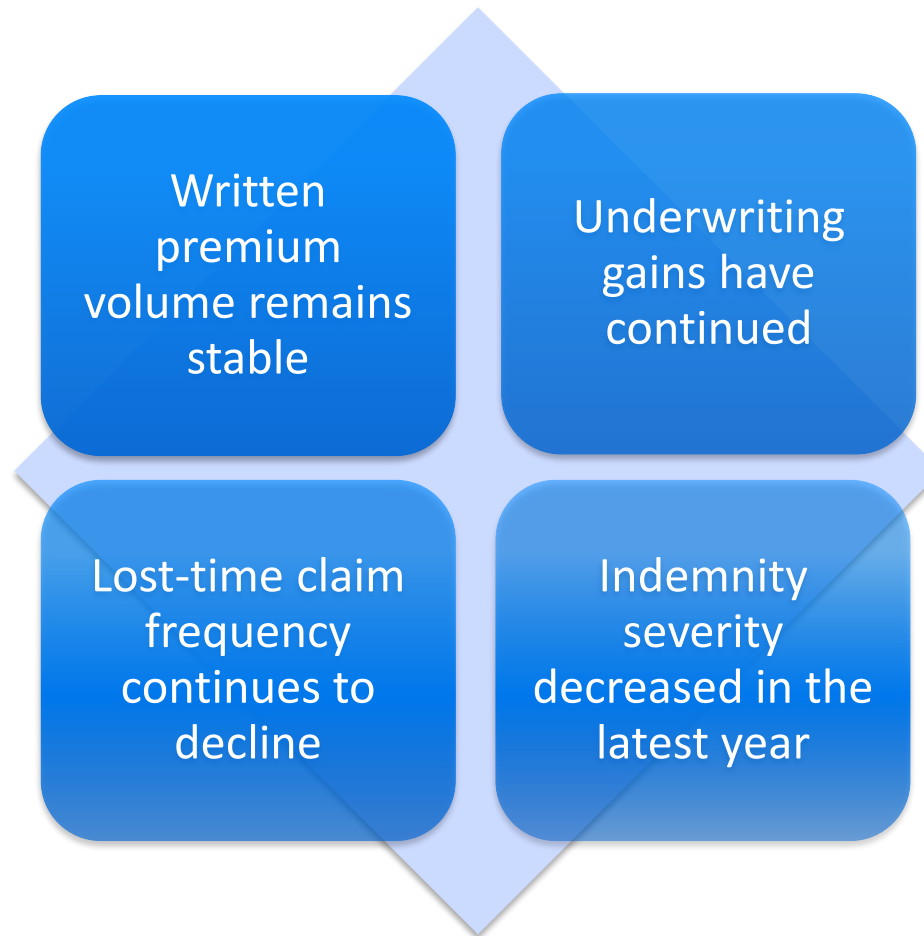
Personal Health Care (PHC) Chain-Weighted Price Index: Centers for Medicare & Medicaid Services



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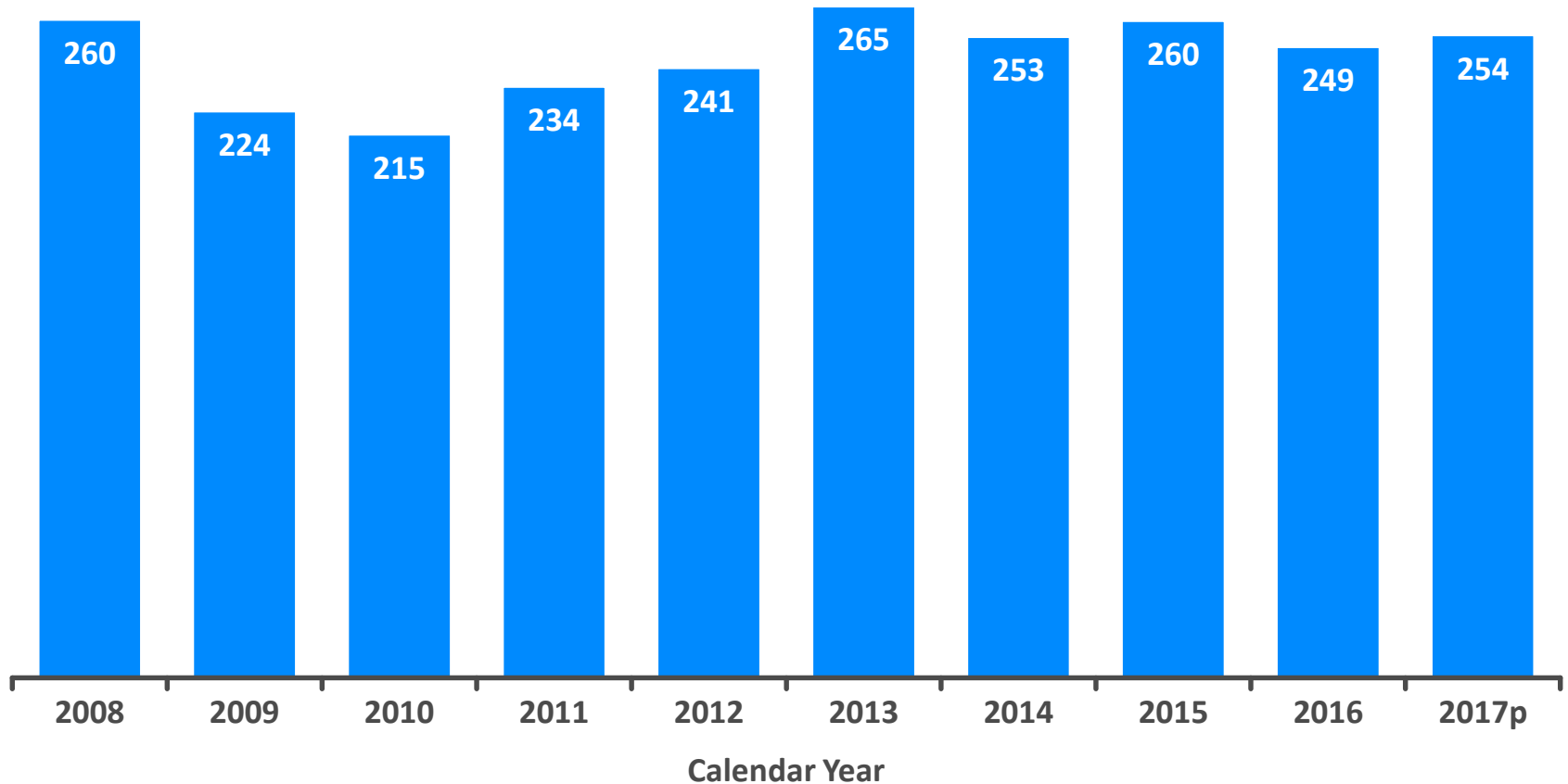
Arkansas Workers Compensation System

Arkansas Workers Compensation System— An Overview



Arkansas Workers Compensation Premium Volume

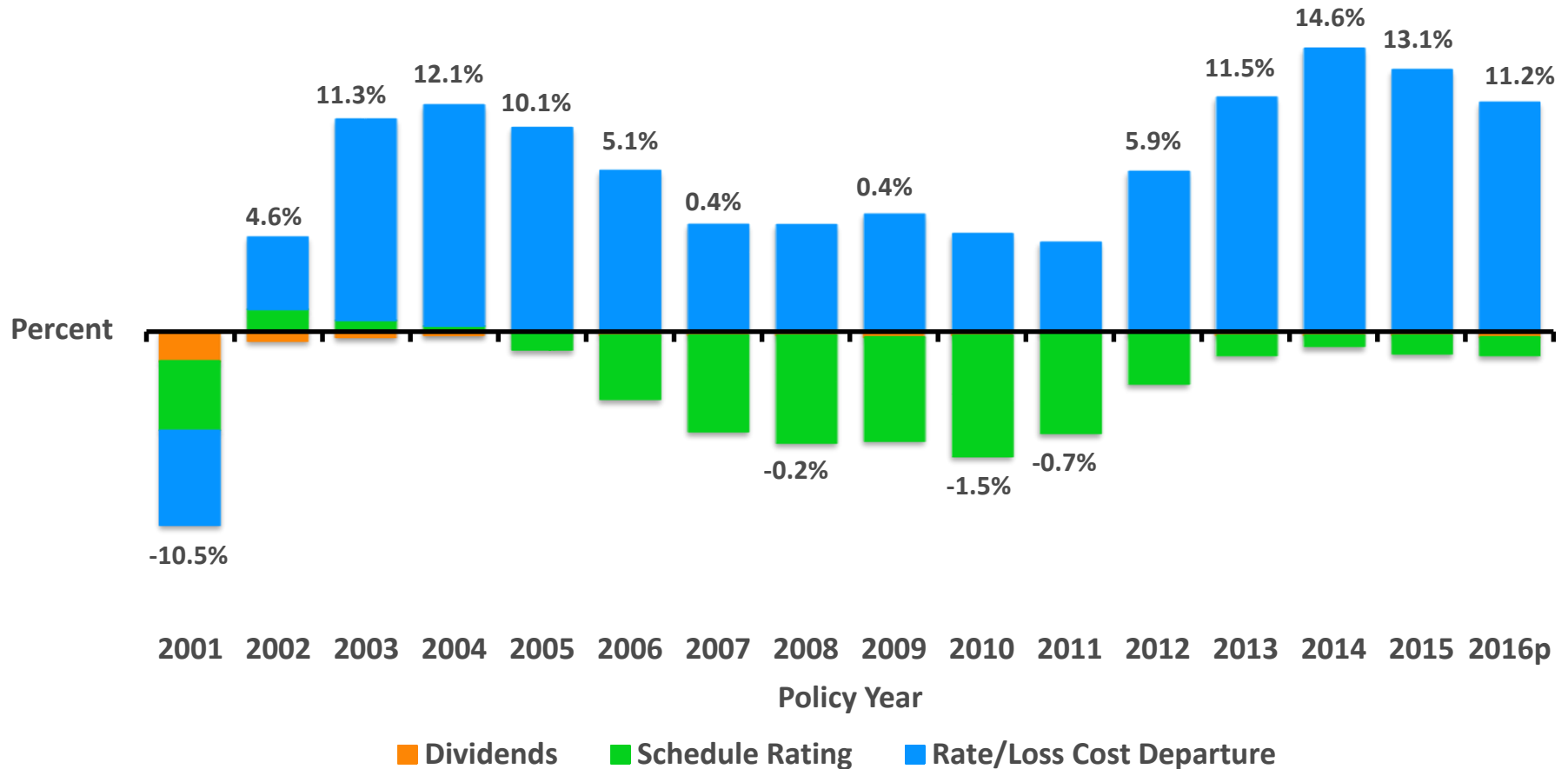
Direct Written Premium in \$ Millions



p Preliminary

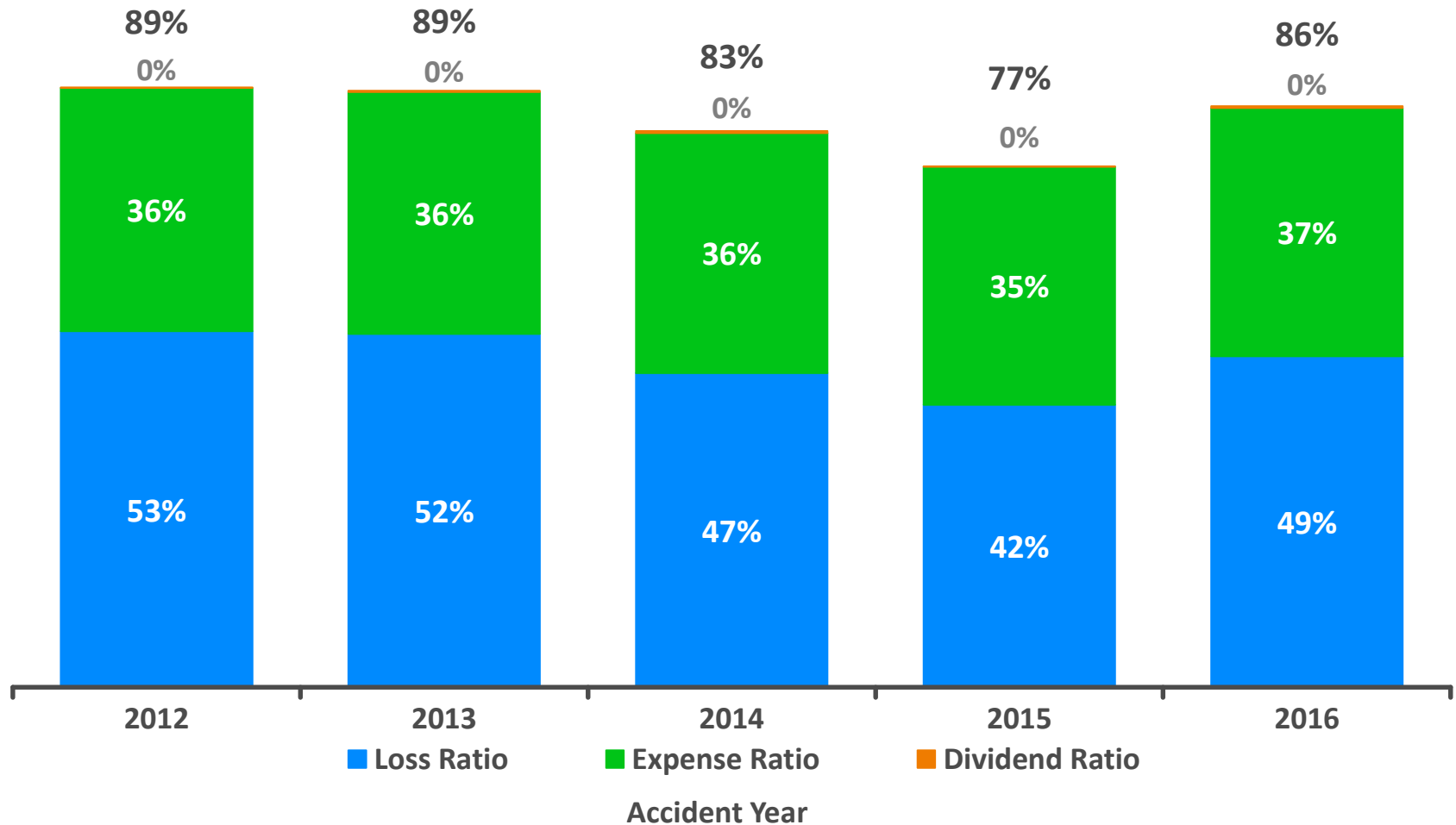
Source: NAIC's Annual Statement data

Impact of Discounting on Workers Compensation Premium in Arkansas



p Preliminary
Based on data through 12/31/2016
Dividend ratios are based on calendar year statistics

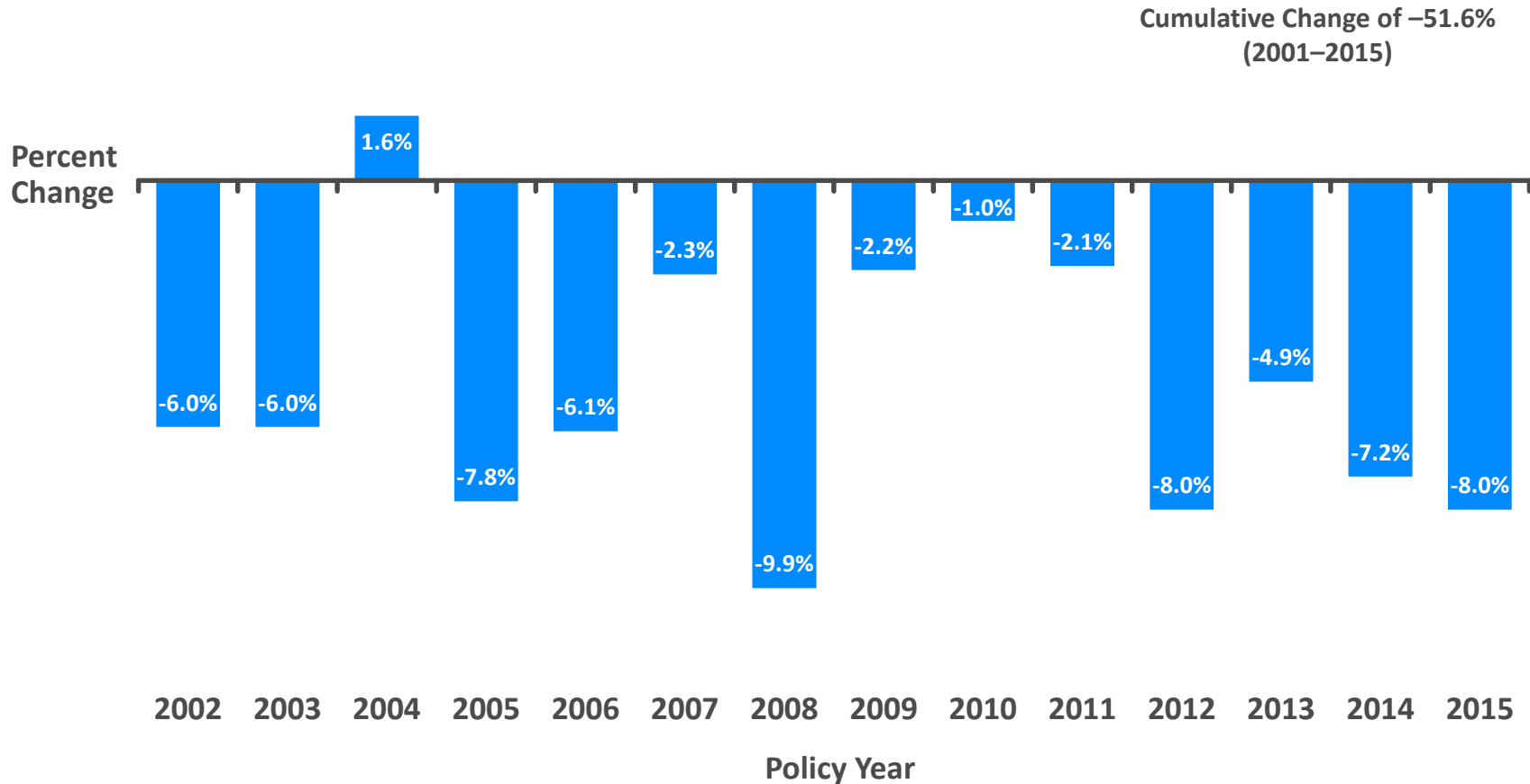
Arkansas Accident Year Combined Ratios by Component



Sources: NCCI's financial data through 12/31/2016 and NAIC's Annual Statement data

Arkansas Workers Compensation Lost-Time Claim Frequency

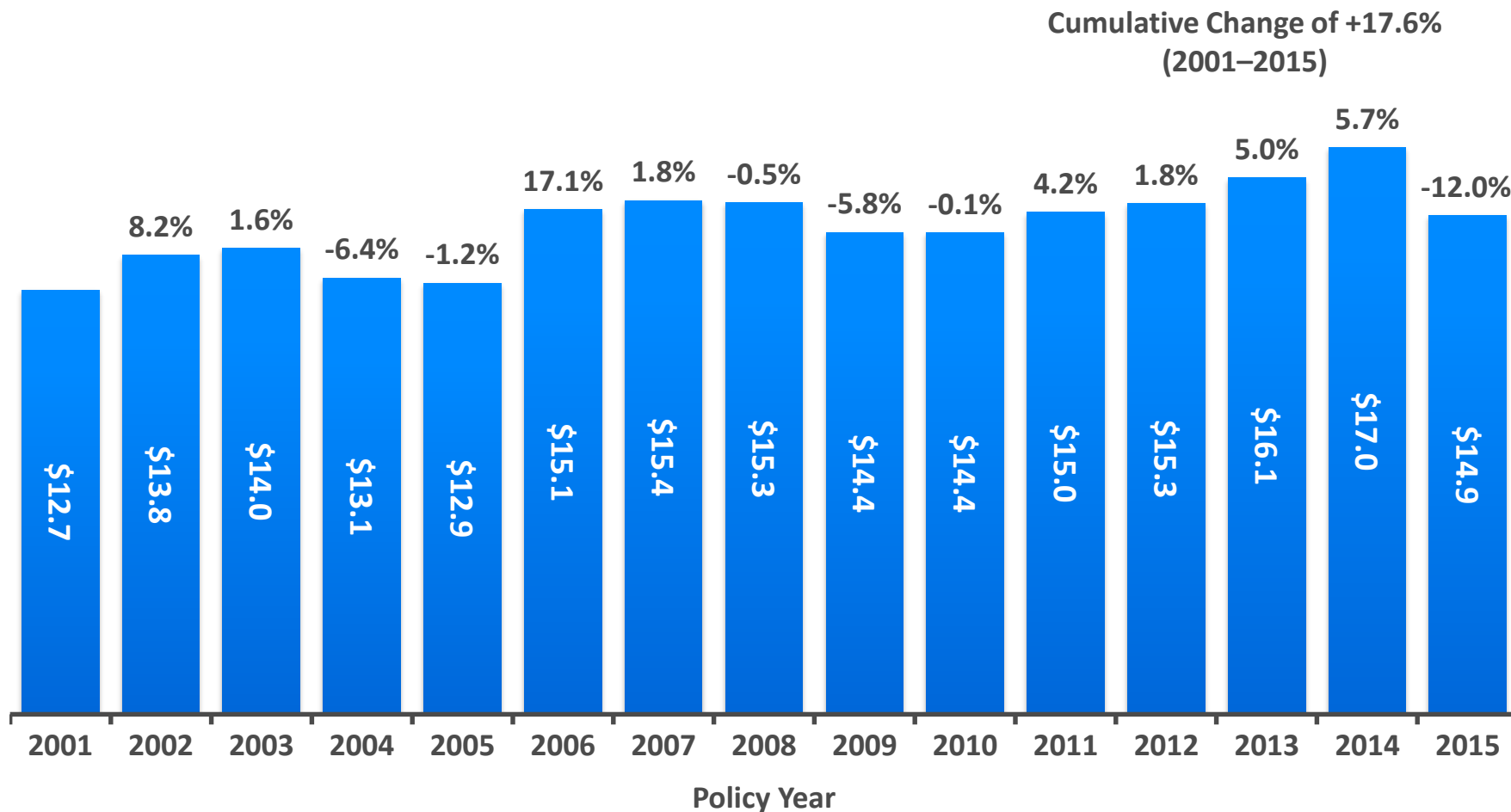
Lost-Time Claims



Based on NCCI's financial data through 12/31/2016, developed to ultimate, and premium adjusted to common wage level

Arkansas Average Indemnity Claim Severity

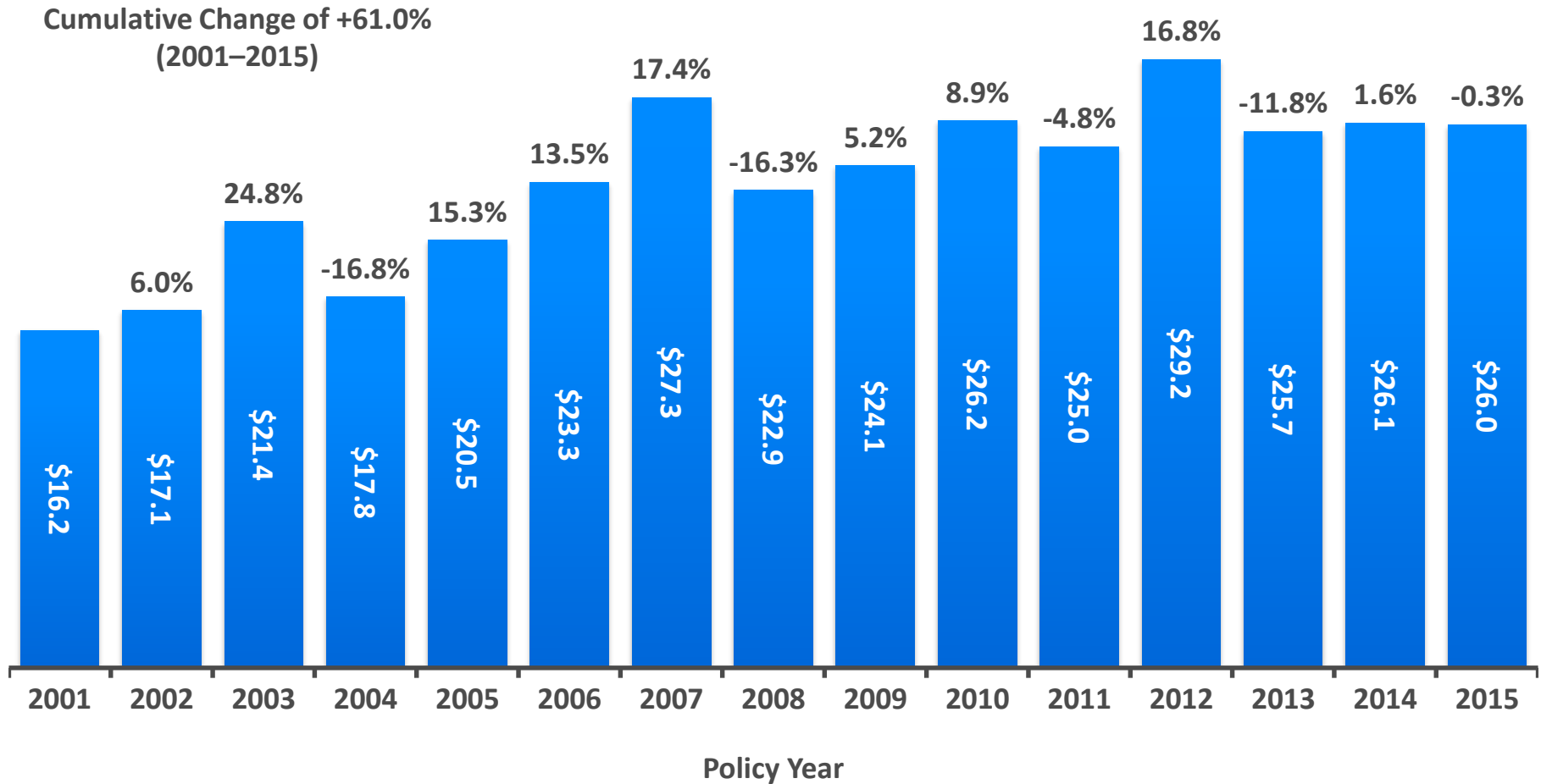
Lost-Time Claim Severity in \$ Thousands



Based on NCCI's financial data through 12/31/2016, on-leveled and developed to ultimate

Arkansas Average Medical Claim Severity

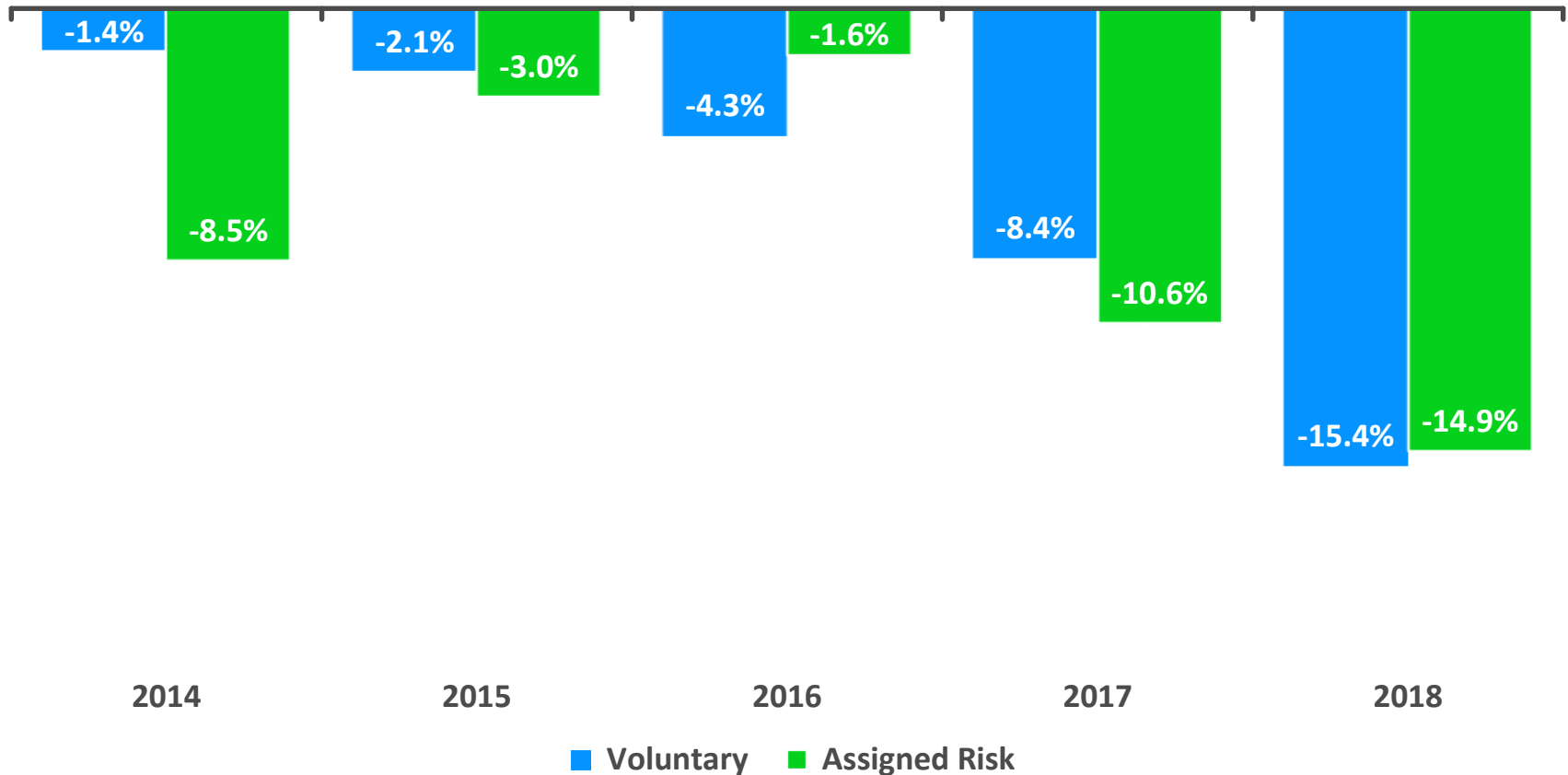
Lost-Time Claim Severity in \$ Thousands



Based on NCCI's financial data through 12/31/2016, on-leveled and developed to ultimate

Arkansas Filing Activity

Voluntary Loss Cost and Assigned Risk Rate Changes



Arkansas July 1, 2018 Loss Cost Filing

Changes by Component

Overall Loss Cost Level Change: -15.4%			
Change in Experience: -13.9%	Change in Trend: -3.8%	Change in Benefits: +2.3%	Change in LAE: -0.1%

Arkansas July 1, 2018 Loss Cost Filing

Average Changes by Industry Group

Overall Change: -15.4%



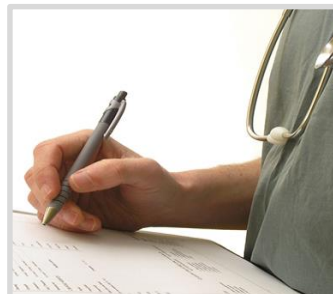
Manufacturing: -15.9%



Contracting: -16.8%



Office & Clerical: -16.5%



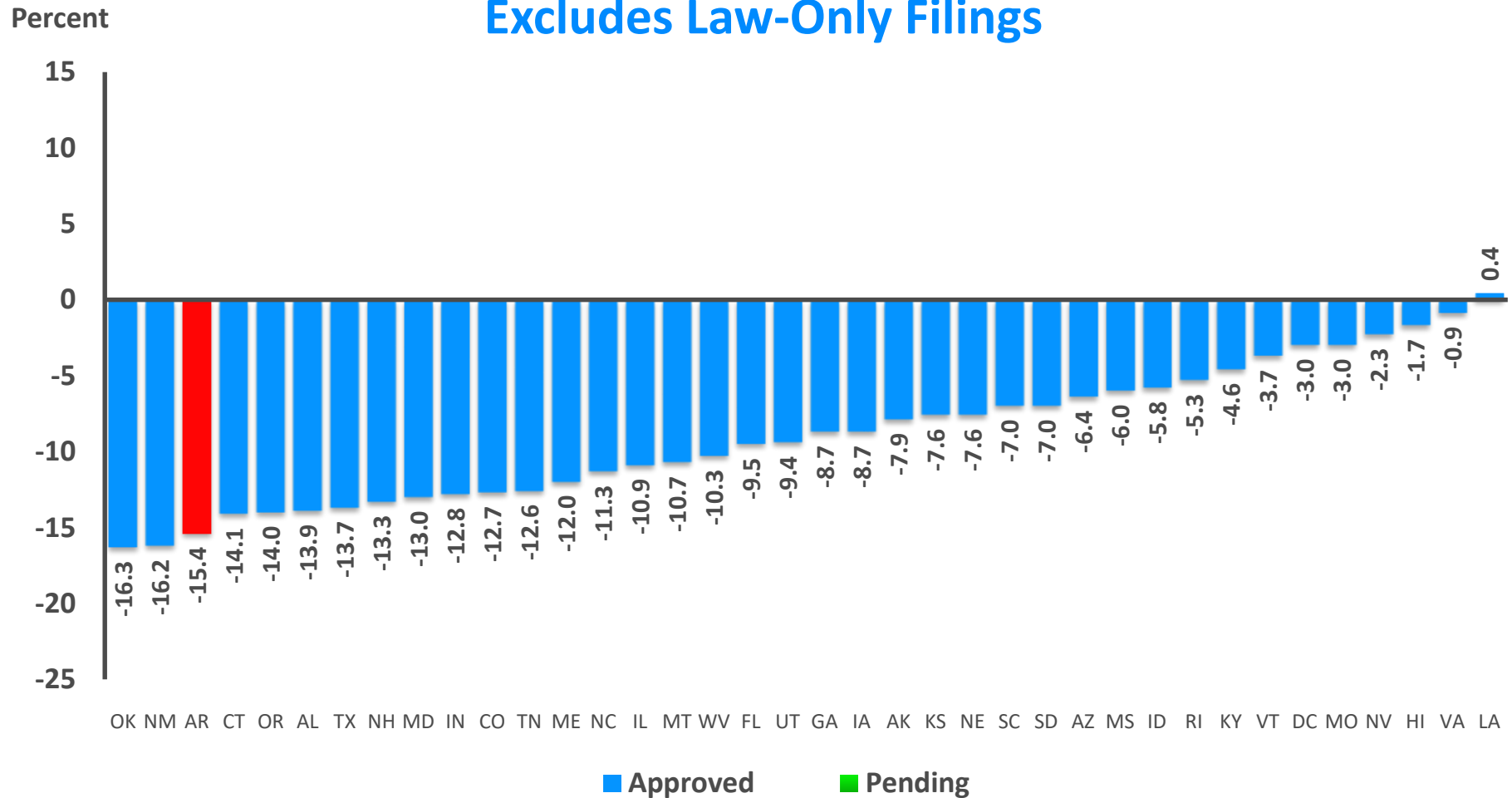
Goods & Services: -14.1%



Miscellaneous: -14.5%

Current NCCI Voluntary Market Loss Cost/Rate Level Changes

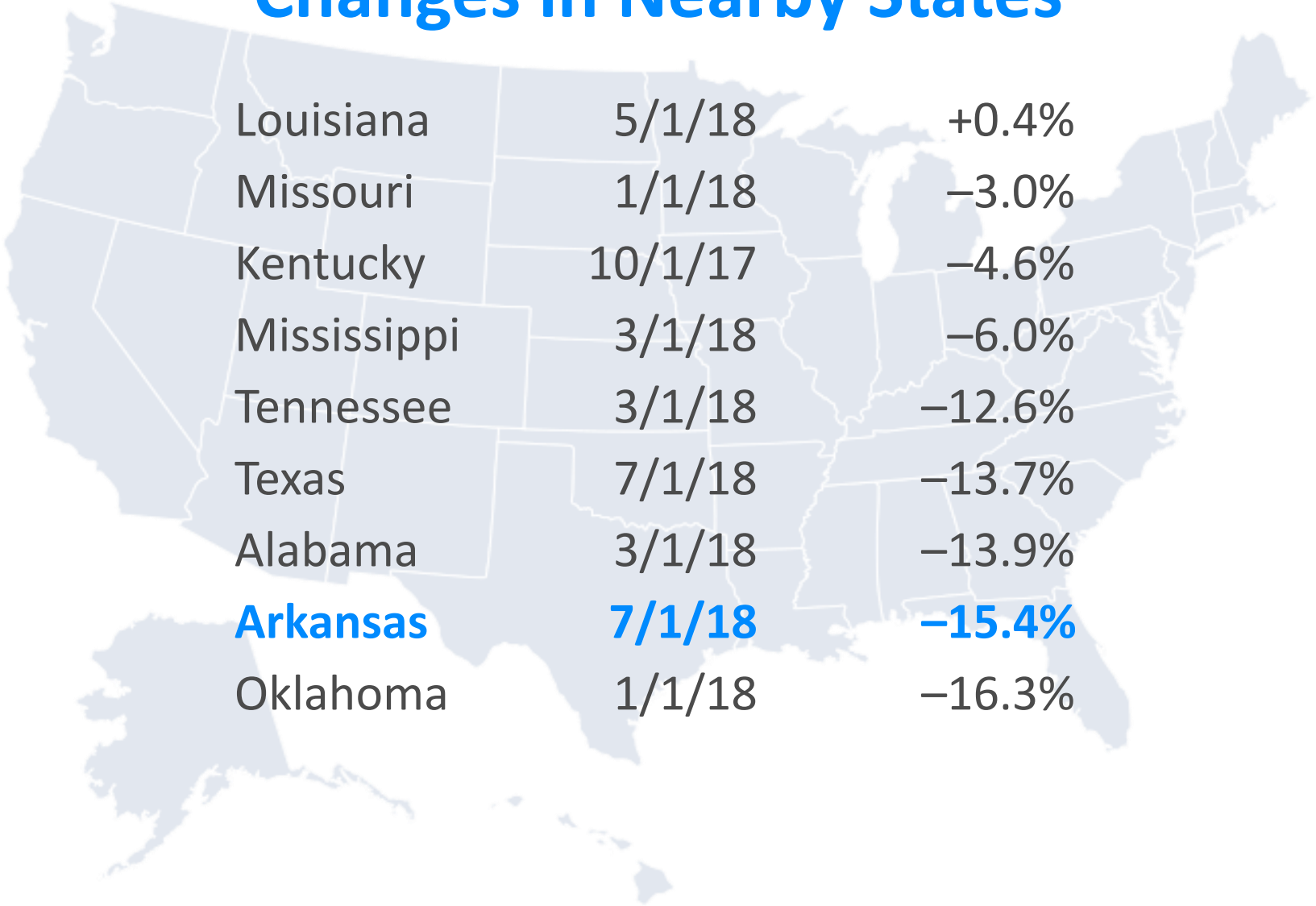
Excludes Law-Only Filings



Reflects the most recent experience filing in each jurisdiction

Due to the timing of the individual loss cost/rate filings, the figures shown may include changes from prior filing seasons

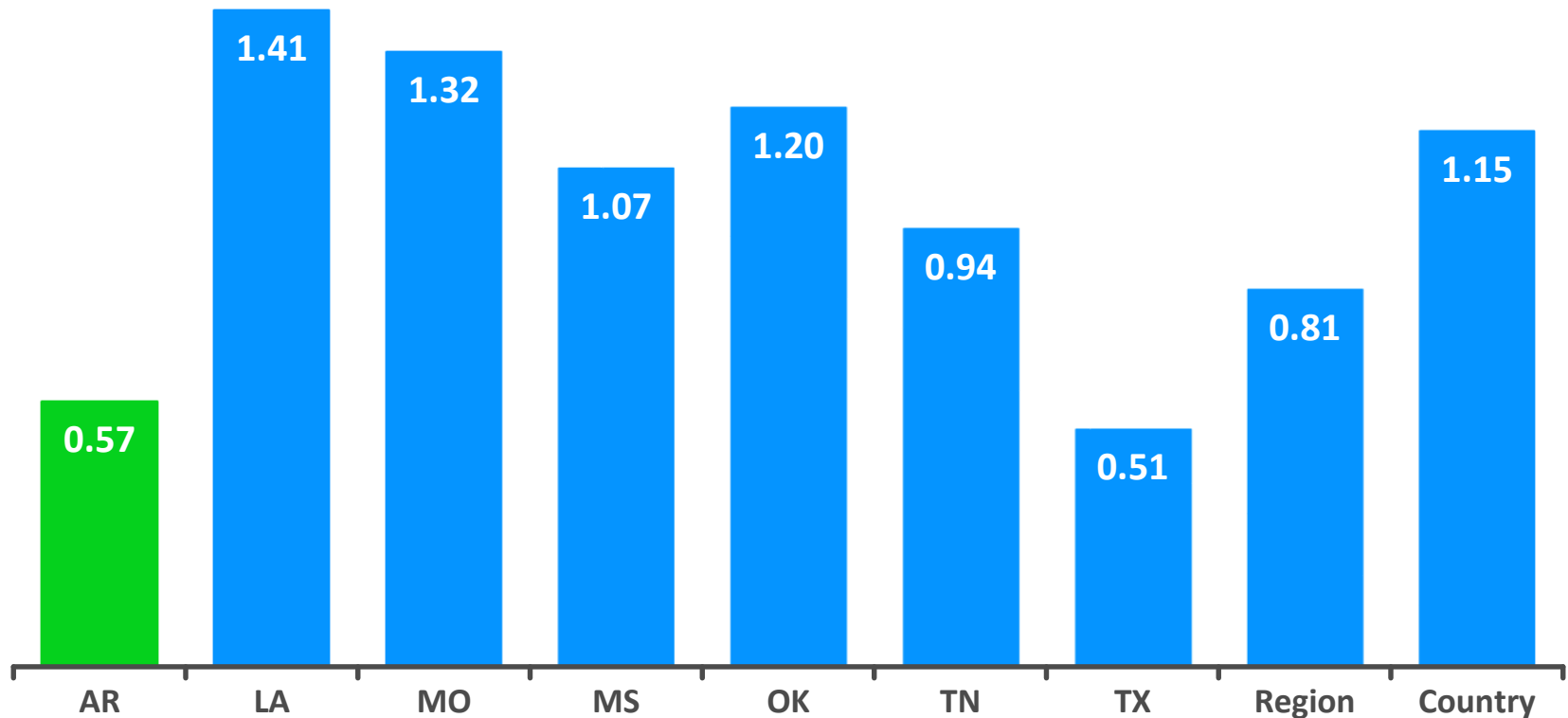
Current Voluntary Market Loss Costs Changes in Nearby States



Louisiana	5/1/18	+0.4%
Missouri	1/1/18	−3.0%
Kentucky	10/1/17	−4.6%
Mississippi	3/1/18	−6.0%
Tennessee	3/1/18	−12.6%
Texas	7/1/18	−13.7%
Alabama	3/1/18	−13.9%
Arkansas	7/1/18	−15.4%
Oklahoma	1/1/18	−16.3%

Current Average Voluntary Pure Loss Costs Using Arkansas Payroll Distribution

Pure Loss Cost—All Classes



Based on the latest NCCI approved rates and loss costs in the various states



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**Insurance
Commissioner
Allen Kerr**



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Countrywide and Arkansas Labor Markets

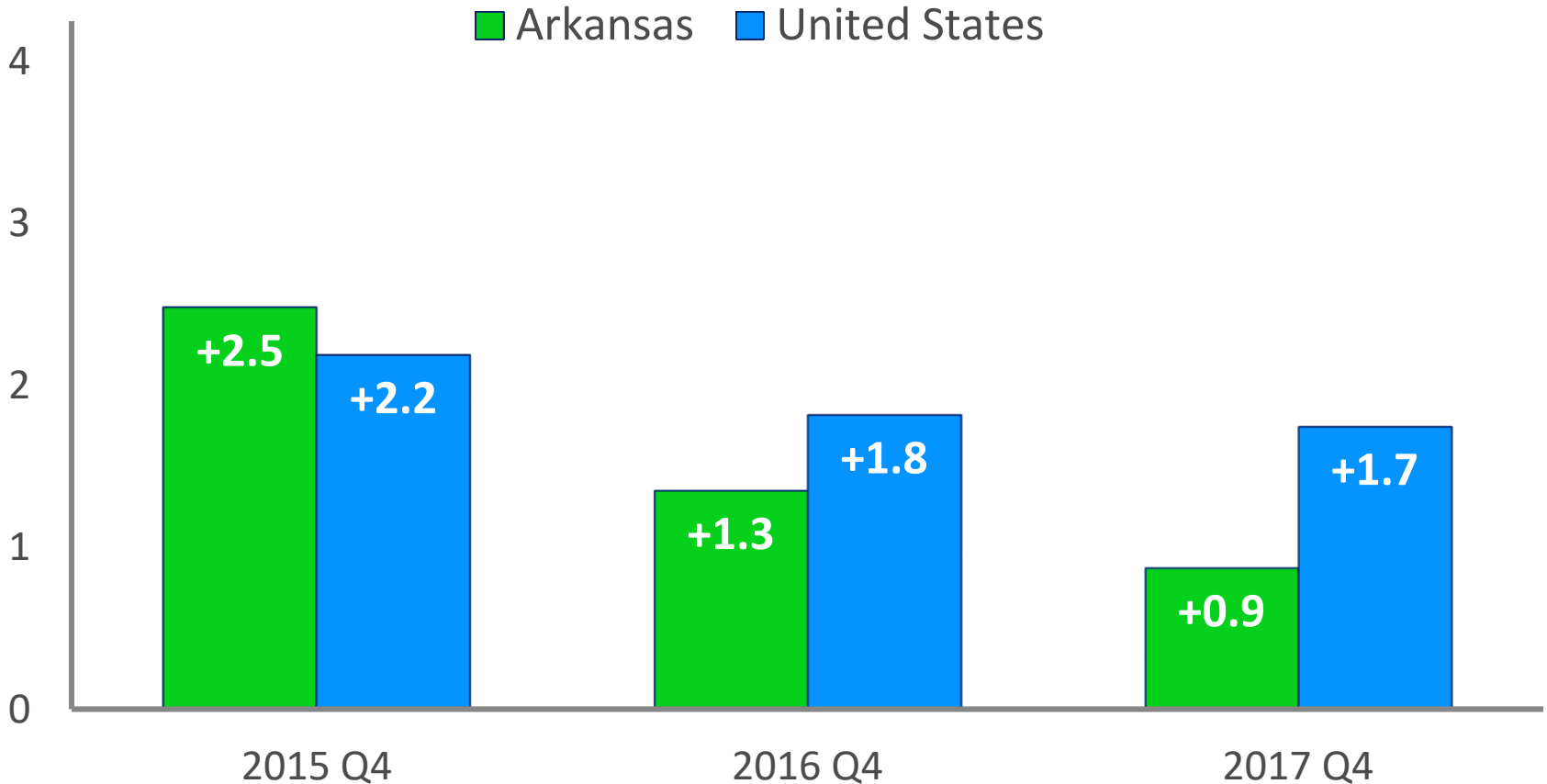
National Economic Highlights and Their Impact on Workers Compensation

National Economic Indicator	Potential Impact on the Workers Compensation Market
Private employment growth continues to be near 2%	Continuing payroll and premium growth
Wage growth is increasing and expected to accelerate	Upward pressure on payroll and premium growth as well as indemnity severity
Medical inflation is forecasted to rise	Increases in medical costs per claim
Short-term and long-term interest rates have increased	Investment yields will increase across the spectrum of bond maturities

Change in Private Employment

Private Employment Growth Is Below Average

Percent



Year-on-year percentage change; employment is for Total Private Industry

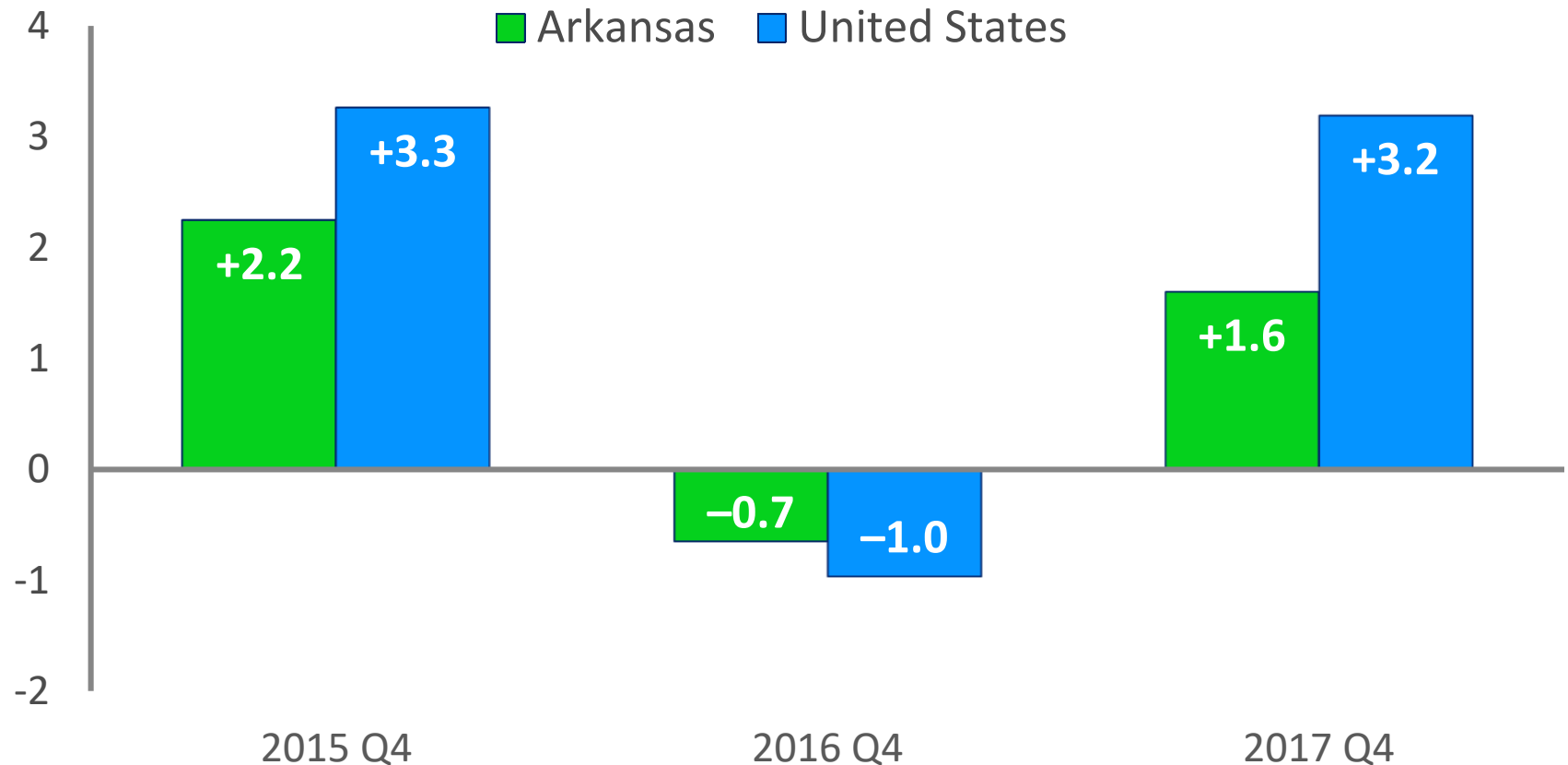
Frequency of observation: quarterly; 2014 Q4–2017 Q4

Sources: US Bureau of Labor Statistics, Moody's Analytics, and NCCI

Change in Average Weekly Wages

Wage Growth Is Below the Rest of the Nation

Percent



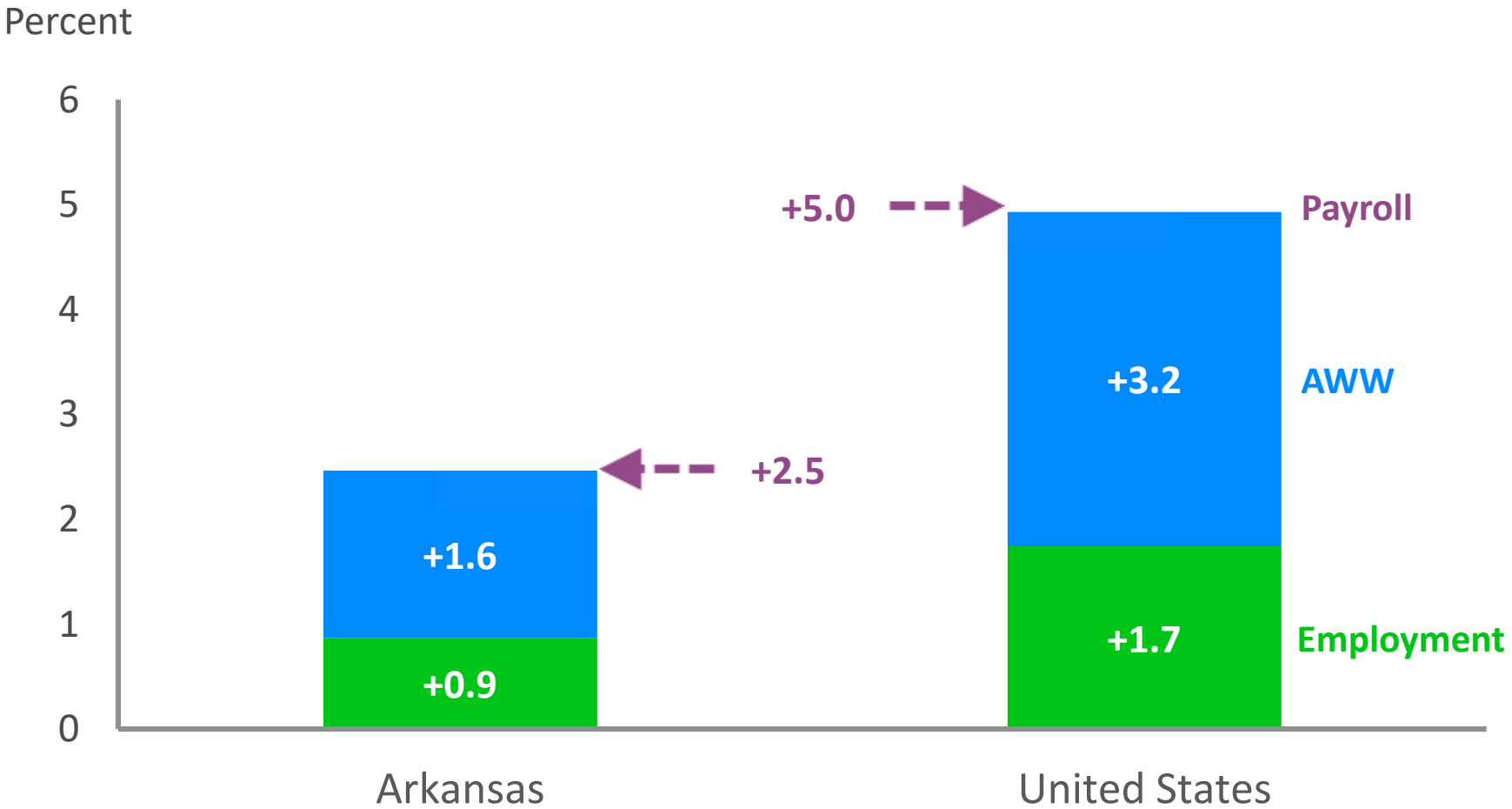
Year-on-year percentage change; wages are for Total Private Industry

Frequency of observation: quarterly; 2014 Q4–2017 Q4

Sources: US Bureau of Labor Statistics, Bureau of Economic Analysis, Moody's Analytics, and NCCI

Private Industry Payroll Growth Decomposition

Payroll Growth Is Lower Than the Nation


















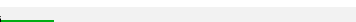






AWW = Average Weekly Wage
2017 Q4 year-on-year percentage change
Sources: US Bureau of Labor Statistics, Bureau of Economic Analysis, Moody's Analytics, and NCCI



Change in Employment by Industry

Employment in Most Industries Has Increased in the Past Year

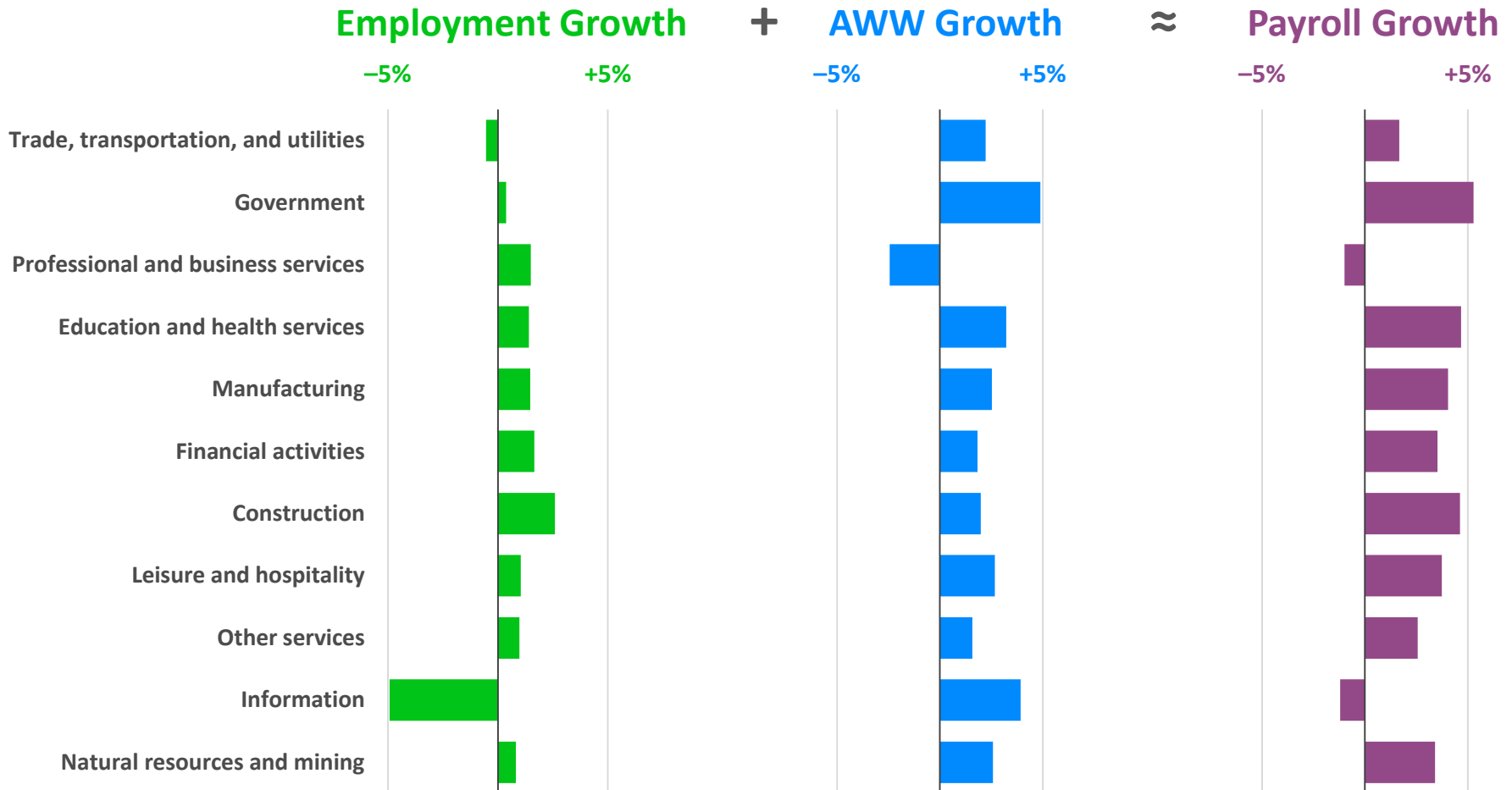
Industrial Sector	Year-Over-Year Percent Change, 2017Q4			Sector Size	% Share	1-Year Change
Education and health services	AR	+1.4		187,700	15	+2,600
	US	+2.1				
Manufacturing	AR	+1.5		157,900	13	+2,300
	US	+1.5				
Professional and business services	AR	+1.5		145,100	12	+2,100
	US	+2.2				
Construction	AR	+2.6		51,400	4	+1,300
	US	+3.3				
Leisure and hospitality	AR	+1.0		117,100	9	+1,200
	US	+2.3				
Financial activities	AR	+1.7		53,100	4	+900
	US	+1.8				
Government	AR	+0.4		211,400	17	+800
	US	+0.1				
Other services	AR	+1.0		49,500	4	+400
	US	+1.7				
Natural resources and mining	AR	+0.8		9,300	1	+100
	US	+5.4				
Information	AR	-4.9		12,900	1	-600
	US	-1.3				
Trade, transportation, and utilities	AR	-0.5		250,700	20	-1,400
	US	+0.7				

Employment numbers are rounded to the nearest hundred

Year-on-year percentage change; frequency of observation: quarterly; 2017 Q4

Sources: US Bureau of Labor Statistics, Moody's Analytics, and NCCI

Arkansas Payroll Growth Decomposition by Sector



AWW = Average Weekly Wage

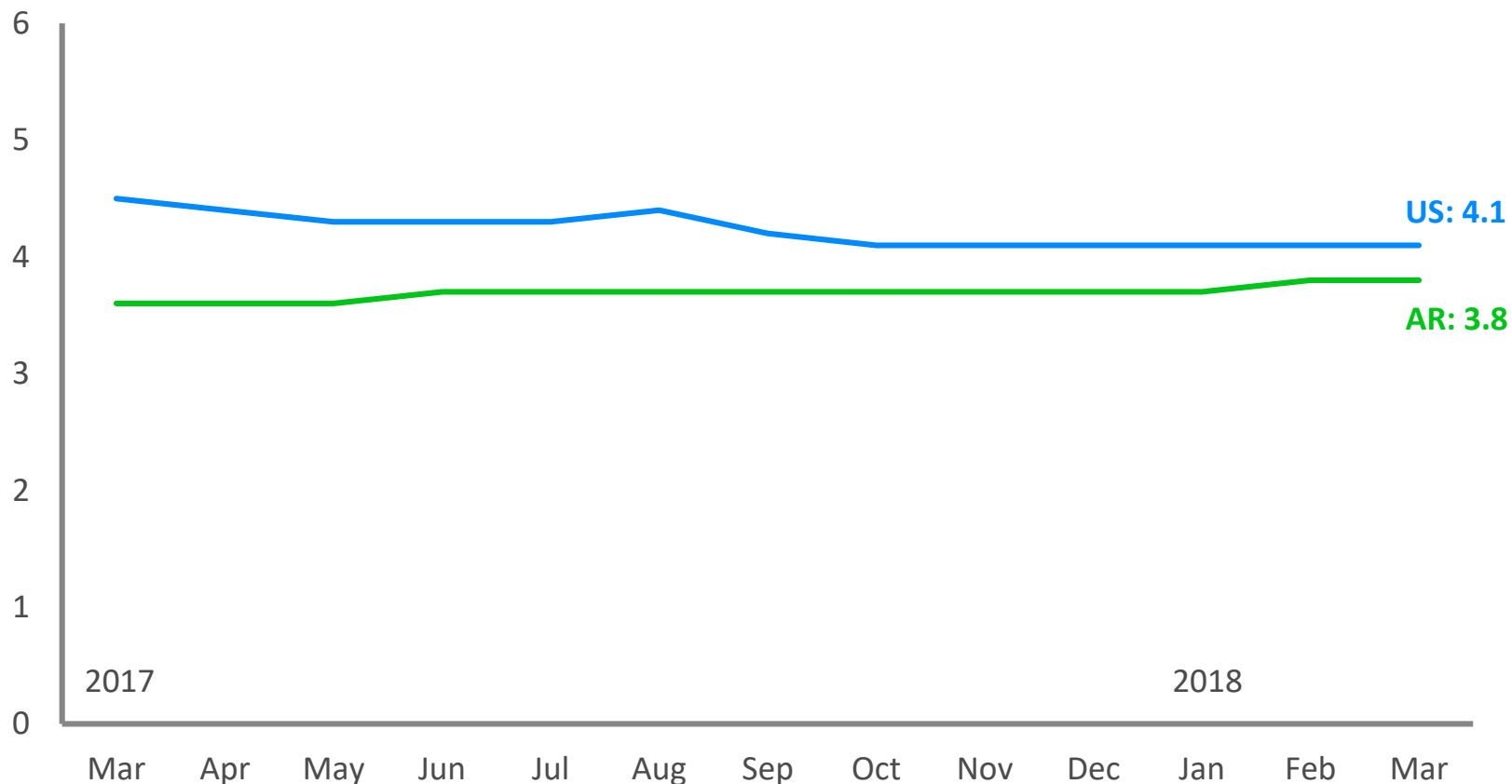
2017 Q4 year-on-year percentage change; sectors are in descending order by the volume of state payroll amounts

Sources: US Bureau of Labor Statistics, Bureau of Economic Analysis, Moody's Analytics, and NCCI

Headline Unemployment Rate

The Unemployment Rate Is Lower Than the National Rate

Percent



Headline Unemployment Rate, seasonally adjusted
Frequency of observation: monthly; latest available data point: March 2018
Source: US Bureau of Labor Statistics (BLS), www.bls.gov

Arkansas Labor Market

- Unemployment rate is below the US rate
- Payroll growth is primarily driven by increases in wages rather than employment
 - Payroll growth is largest in the Government sector
 - Both the Construction and the Education and Health Services sectors also had strong payroll growth
- Employment growth is below the US rate
 - Education and Health Services and Manufacturing sectors added the most jobs
 - Construction grew at the fastest rate
 - Employment decreased in the state's largest sector—Trade, Transportation, and Utilities



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The Data Connection (Video)



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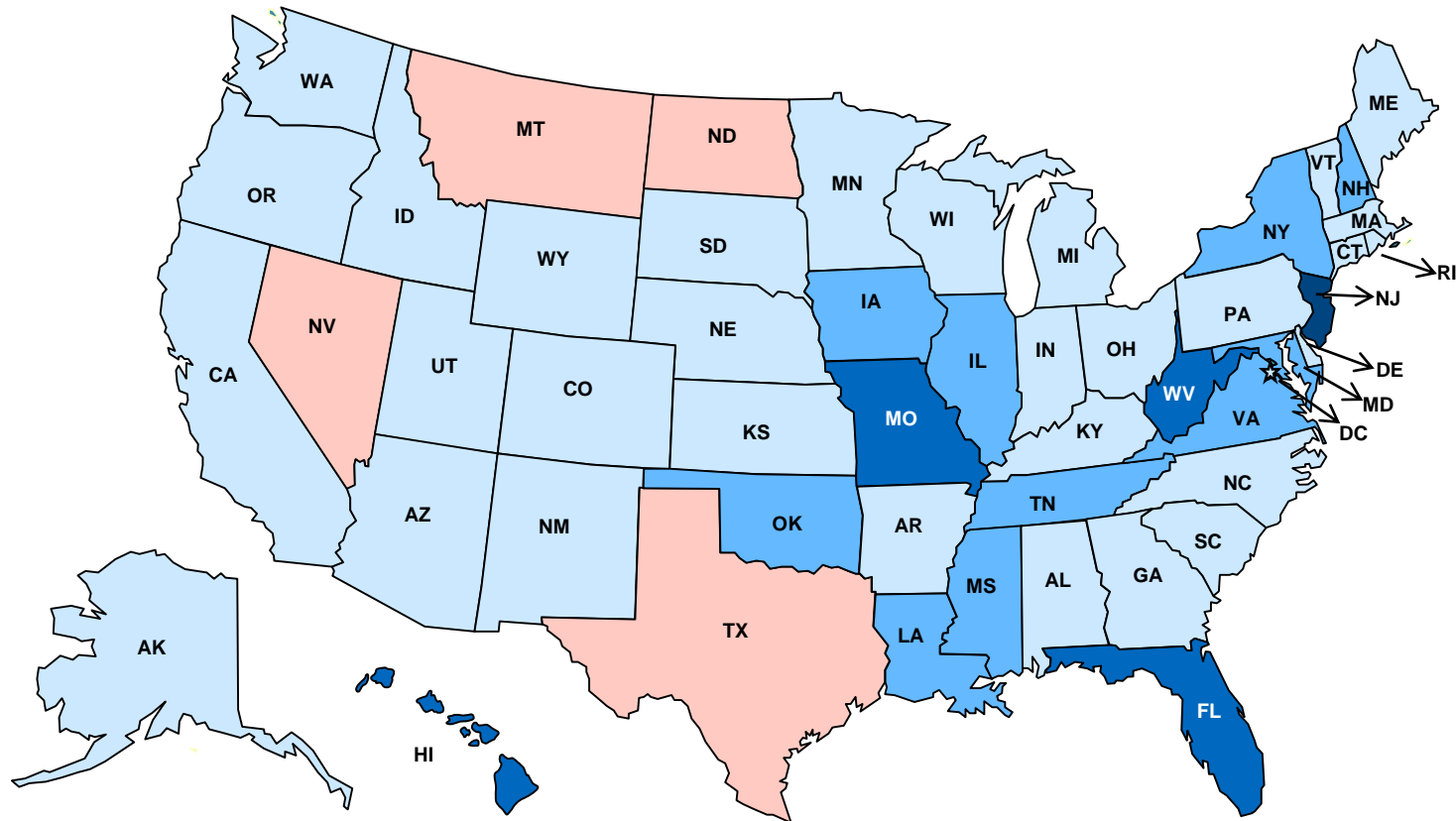
Legislative Issues

Legislative Overview for 2018

As of March 2018:

- NCCI has tracked approximately 753 state and federal workers compensation-related bills
- 450 of the bills are in NCCI states
- 25 bills enacted (includes all jurisdictions and federal)

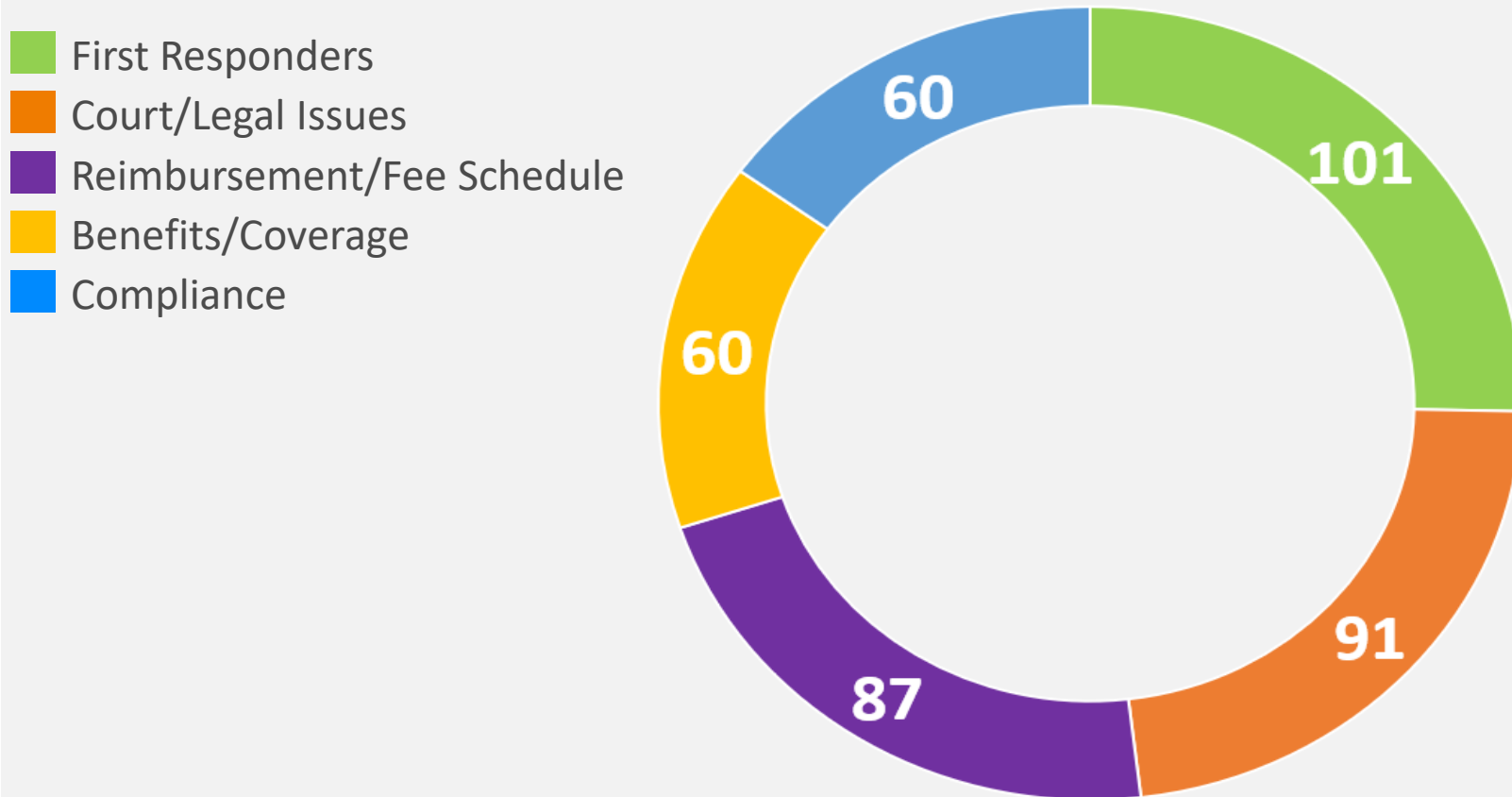
2018 Workers Compensation Legislative Activity



As of 5/2/2018

Key Workers Compensation-Related Themes in Introduced Legislation

2018 Top 5 Workers Compensation Legislative Trends



Federal Legislative and Regulatory Issues Impacting the Workers Compensation System

- NCCI works with Congress and federal agencies to provide information regarding issues that impact the state-based workers compensation system
- NCCI works closely with many federal agencies, including:
 - US Department of Labor (USDOL)
 - National Institute for Occupational Safety and Health (NIOSH)
 - Government Accountability Office (GAO)
 - US Department of the Treasury

Federal Emerging Issues

Regulation of Air
Ambulance
Services

Sen. Jon Tester (MT)
introduced legislation
to provide state
authority

Federal Aviation
Administration
Reauthorization

Social Security
Disability
Insurance (SSDI)
Reform

SSDI Solutions
Initiative
recommendations

Trump
Administration SSDI
Reverse Offset
Proposal

Medicare
Set-Aside (MSA)
Reform

Legislation to be
introduced to bring
greater efficiency to
the MSA process

Congressional
Budget Office
scoring



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Opioids and Workers Compensation

What Is a Prescription Opioid?

- Prescription opioids are a class of drugs used to treat moderate to severe pain, particularly chronic intractable pain
- Prescription opioids include oxycodone (OxyContin®), hydrocodone (Vicodin®), and morphine
- Opioids bind to and activate opioid receptors on cells in the brain and body
 - Pain signals are blocked, and large amounts of dopamine are released
 - Misuse of opioids can slow down breathing, which can lead to death

How Did We Get Here?

- Opioid addiction and overdose have reached epidemic levels over the past decade
- Physicians interviewed by NCCI point to four key factors that led to the rise in opioid prescribing and consumption:
 - The intent to cure pain
 - Wide acceptance that opioid painkillers were low risk and nonaddictive
 - A lack of experience in opioid addiction science
 - The scientific lag in determining a dosage ceiling for opioids
- According to the physicians interviewed:
 - 2001 Joint Commission standards—pain is a vital sign
 - New pain management culture seemed to form—pain must be viewed as a disease and treated

Background

- According to the US Department of Health and Human Services (HHS), in 2016:
 - 11.5 million Americans misused prescription opioids
 - 2.1 million reported an opioid disorder
 - 116 died every day from an opioid-related overdose
- According to the Centers for Disease Control and Prevention (CDC), in 2016:
 - 40% of opioid overdose deaths involved a prescription opioid
 - The number of overdose deaths involving prescription opioids was five times higher than in 1999
 - The US prescribing rate for opioids was 61 prescriptions per 100 persons

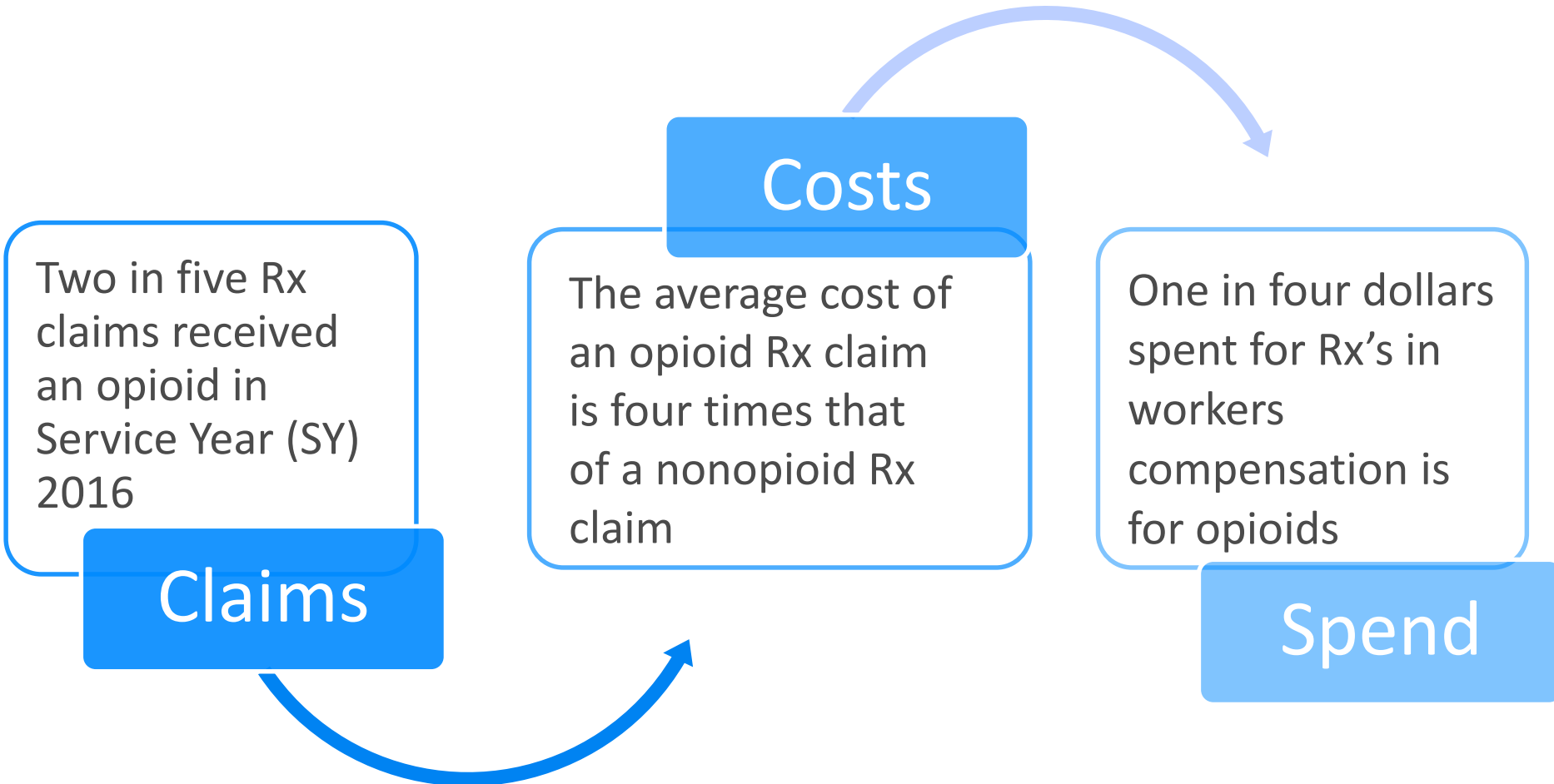


Impact on Workers Compensation

- According to NCCI's data, injured workers who were prescribed at least one prescription in 2016 received three times as many opioid prescriptions as the US opioid prescribing rate
- Workers compensation is directly impacted because injured workers are often prescribed opioids for pain



Opioids Are a Significant Share of Prescription Drug (Rx) Costs



Source: NCCI's Medical Data Call, Service Year 2016; states included are AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MI, MN, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, and WI

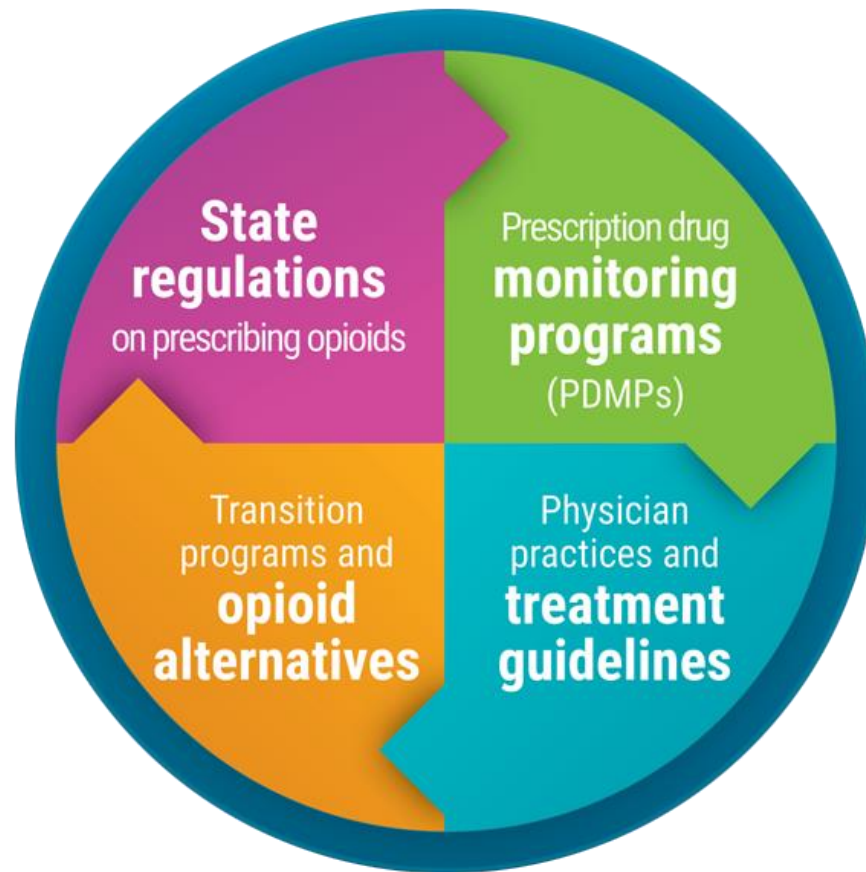
Top 10 Workers Compensation Opioid Drugs by Prescription Counts for Countrywide

Name of Opioid Drug	Type B/G	% of Drug Prescriptions	PPU Countrywide
Hydrocodone Bitartrate-Acetaminophen	G	9.7%	\$0.58
Tramadol HCl	G	5.1%	\$1.16
Oxycodone HCl-Acetaminophen	G	4.7%	\$1.76
Oxycodone HCl	G	2.8%	\$1.27
Oxycontin®	B	1.2%	\$8.43
Morphine Sulfate	G	1.1%	\$2.24
Acetaminophen-Codeine Phosphate	G	0.6%	\$0.47
Hydromorphone HCl	G	0.4%	\$1.97
Fentanyl Transdermal System	G	0.3%	\$21.89
Methadone HCl	G	0.3%	\$0.24

Source: NCCI's Medical Data Call, Service Year 2016; states included are AK, AL, AR, AZ, CO, CT, DC, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, ME, MI, MN, MO, MS, MT, NC, NE, NH, NM, NV, OK, OR, RI, SC, SD, TN, UT, VA, VT, and WI

State Regulator Perspective

State regulators interviewed by NCCI shared that tools in the fight against the opioid epidemic include:



State Activity

- In 2016, governors from 40 states signed a compact to fight opioid addiction by adopting a series of steps with the following goals:
 - Reduce inappropriate opioid prescribing
 - Understand opioids and addiction better
 - Ensure a pathway to recovery for individuals with addiction
- This resulted in several states adopting rules and laws, including:
 - Prescribing guidelines
 - Drug formularies
 - PDMPs



2018 State Activity

In 2018, almost every state considered prescription drug legislation or regulatory changes, including:

- Drug formularies
- Limitation on physician dispensing and repackaged drugs
- PDMPs
- Choice of pharmacy
- Compound drugs
- Prescription drug fee schedules
- Pharmaceutical benefit management
- Drug rehabilitation



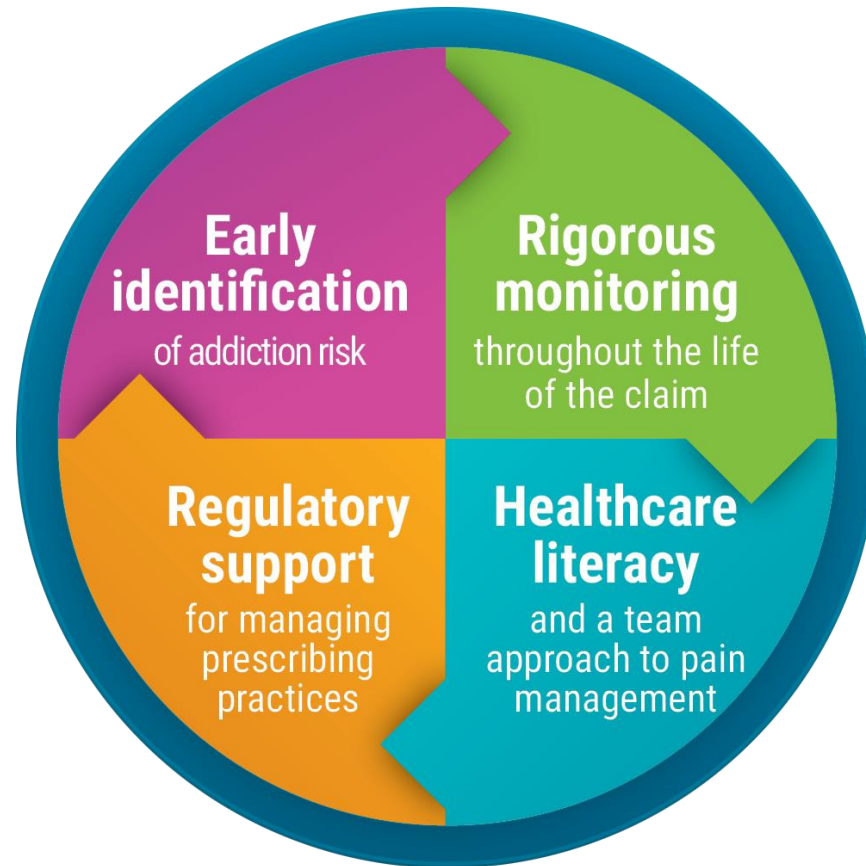
Federal Activity

- Federal:
 - New Initiative to Stop Opioid Abuse and Reduce Drug Supply and Demand
 - CDC Guidelines provide recommendations for prescribing opioid pain medication
- Prescription Drug Monitoring Act of 2017



Claims Professionals Perspective

Claims professionals interviewed by NCCI say that there are four key elements that are critical for successfully managing opioid use:



Potential Alternative Treatments

- Nondrug Treatments

- Physical therapy
- Yoga
- Acupuncture
- Massage therapy



- Drug Treatments

- NSAIDs
- Gabapentin
- Lidocaine



- Medical Marijuana?





ON OPIOIDS



Workers Compensation Perspectives

Find it on [ncci.com](https://www.ncci.com)



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Residual Market: Countrywide and Arkansas

Where Does NCCI Provide Residual Market Services?

- As of January 2018, NCCI provides Plan Administration services in the following states:
 - AK, AL, AR, AZ, CT, DC, GA, IA, ID, IL, KS, MS, NH, NM, NV, OR, SC, SD, TN, VA, VT, WV
 - Other Plan Services: DE, IN, NC
- As of January 2018, NCCI provides Pool Administration services in the following states:
 - National Pool: AK, AL, AR, AZ, CT, DC, DE, GA, IA, ID, IL, KS, NC, NH, NJ, NV, OR, SC, SD, TN, VA, VT, WV
 - New Mexico Pool
 - Tennessee Reinsurance Mechanism
- Financial and Actuarial Services: MA, MI

Assigned Risk Plan Policies and Estimated Premium

By Market Share as of 12/31/17

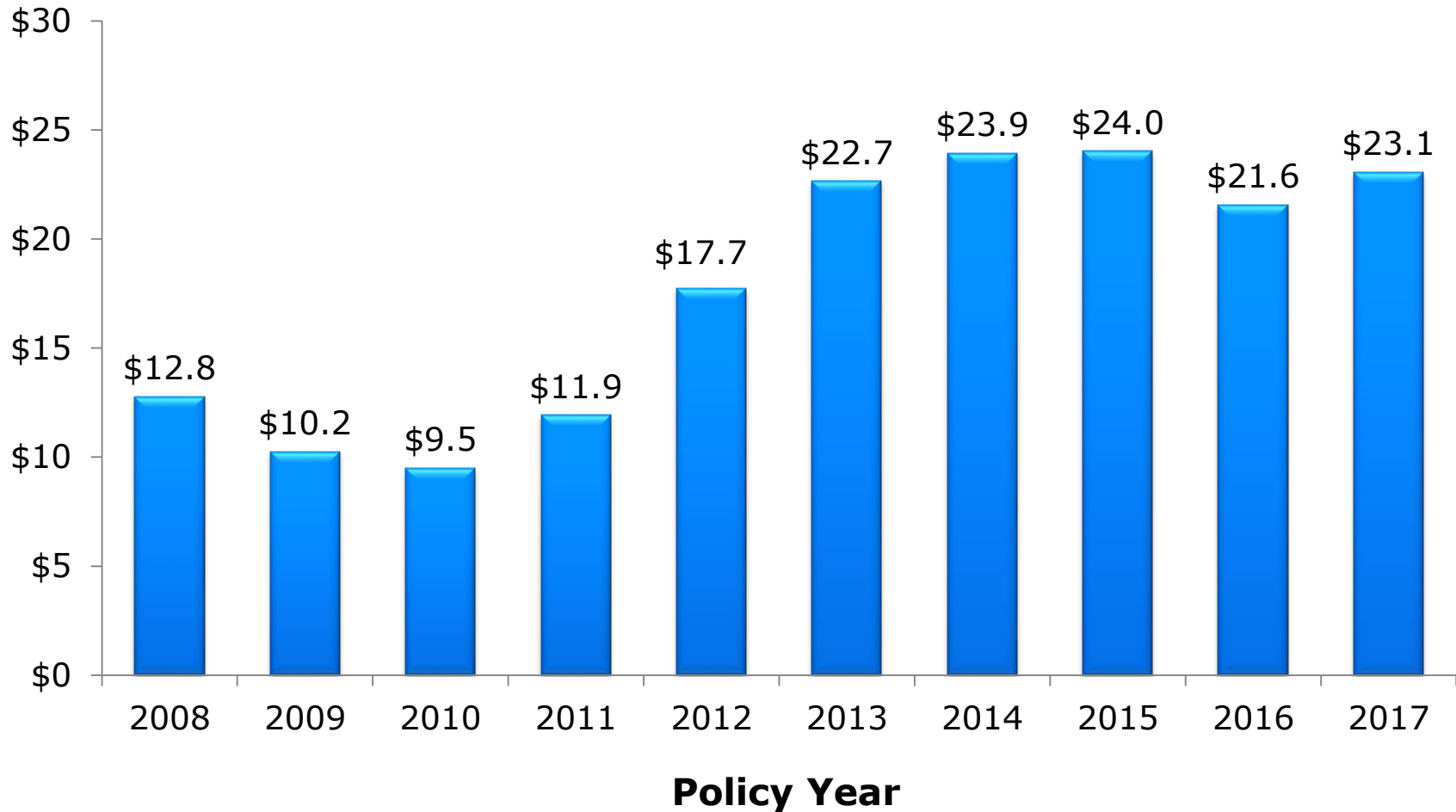
State	Total Policy Count	Total Premium	Market Share %
AK	7,468	\$33,684,821	16.1%
VT	3,838	\$17,986,224	10.3%
AR	6,803	\$23,076,982	9.6%
TN	12,978	\$62,849,355	8.7%
KS	9,001	\$27,805,502	8.6%
NH	4,944	\$17,508,396	7.8%
NV	5,248	\$21,588,506	7.6%
VA	16,276	\$61,167,550	7.2%
SC	13,729	\$34,603,981	6.8%
WV	2,386	\$15,555,676	6.4%
OR	9,058	\$36,874,920	6.1%
GA	22,502	\$69,854,580	6.0%
CT	15,031	\$44,999,559	5.6%
AZ	5,951	\$39,668,103	5.1%
SD	1,449	\$7,551,767	4.8%
IA	4,402	\$29,437,546	4.6%
IL	34,268	\$95,218,290	4.5%
MS	2,592	\$14,790,560	4.1%
NM	1,926	\$7,319,441	4.0%
DC	1,119	\$6,167,660	3.9%
AL	1,634	\$8,458,783	3.0%
ID	929	\$2,473,969	0.6%
Total	183,532	\$678,642,171	6.0%

Policy Count and Premium data are on a Policy Year basis as reported to NCCI, for policies effective from January 1, 2017 to December 31, 2017, including prorated cancellations, with all policies' premium associated to the dominant state. Market Share % is from NCCI's 2017 Residual Market Management Summary

Arkansas Total Residual Market Plan Estimated Premium Volume

Premium in \$ Millions as of 12/31/17

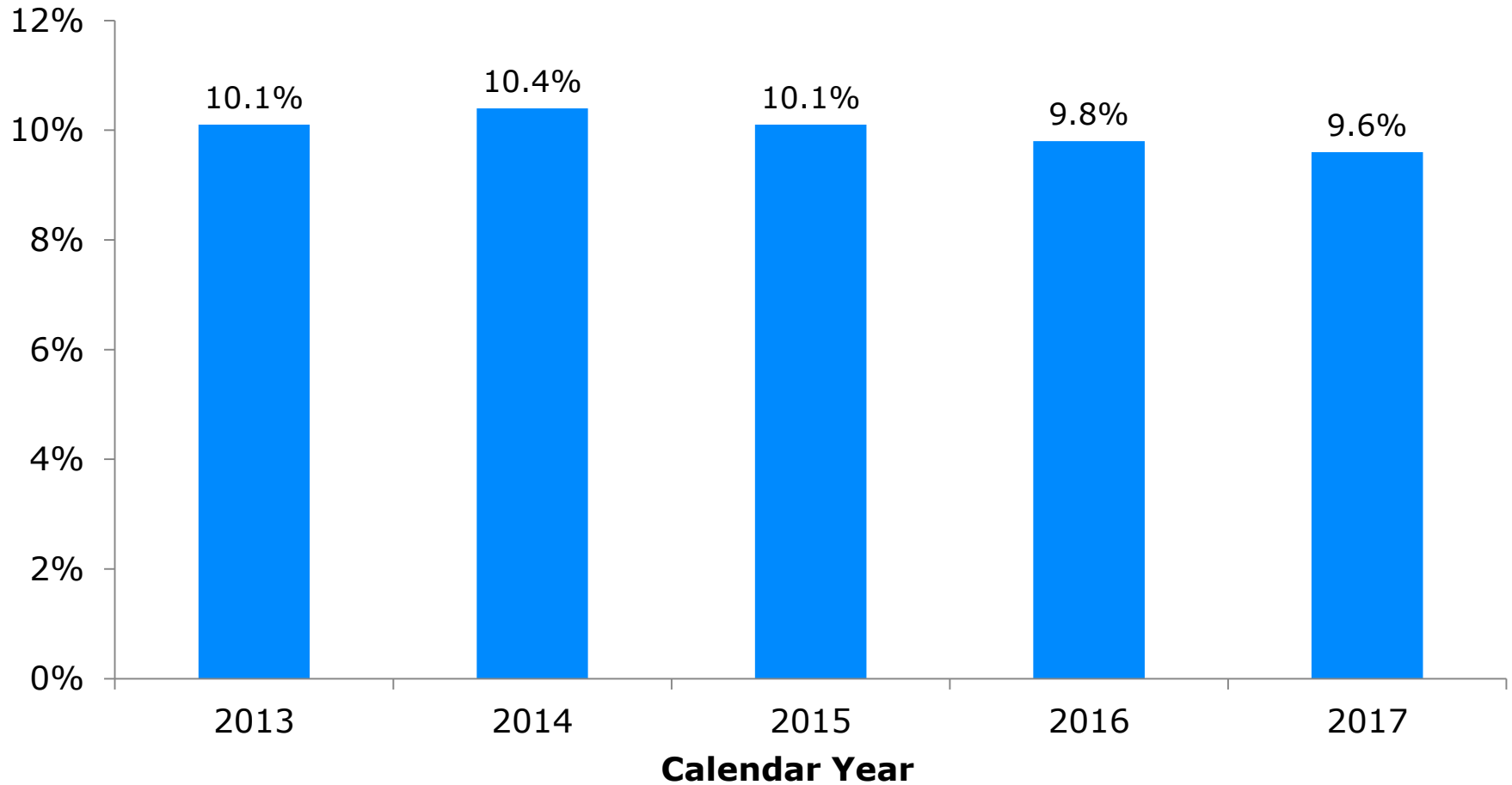
\$ Millions



Premium data is on a Policy Year basis as reported to NCCI, for policies effective from January 1, 2017 to December 31, 2017, including prorated cancellations, with all policies' premium associated to the dominant state.

Arkansas Residual Market Share

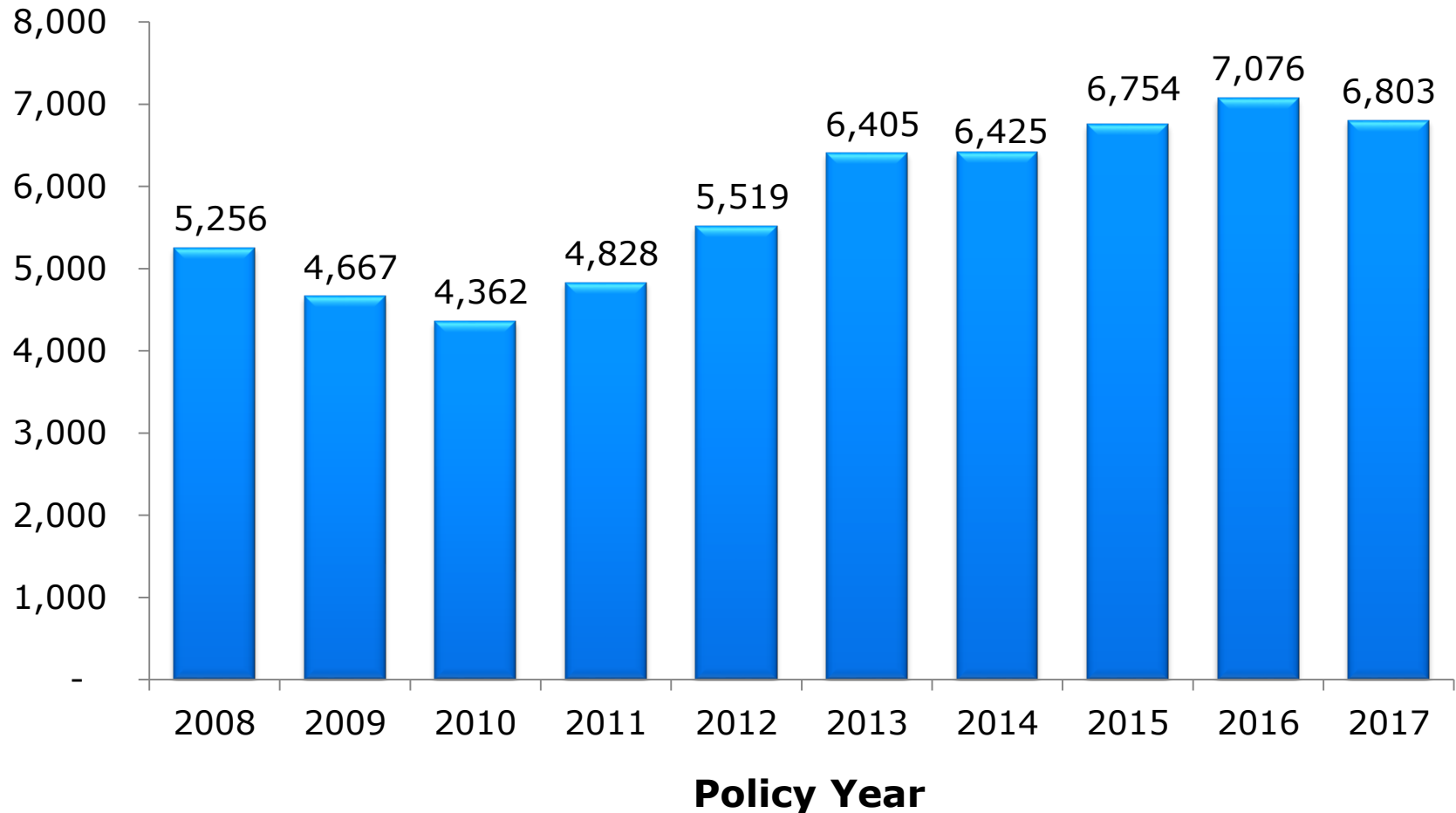
Plan Premium as a Percentage of Direct Written Premium



Market Share % is from NCCI's 2017 Residual Market Management Summary

Arkansas Total Residual Market Plan Policy Counts

As of 12/31/17



Policy Count data is on a Policy Year basis as reported to NCCI, for policies effective from January 1, 2017 to December 31, 2017, including prorated cancellations, with all policies' premium associated to the dominant state.

Arkansas Residual Market Change in Total Estimated Annual Premium

As of 12/31/17

Size of Risk	2016	2017	Change
\$0–\$2,499	\$5.3	\$5.2	-2.3%
\$2,500–\$4,999	\$3.4	\$3.2	-6.2%
\$5,000–\$9,999	\$3.5	\$3.7	3.6%
\$10,000–\$49,999	\$6.2	\$6.5	4.5%
\$50,000–\$99,999	\$1.8	\$1.6	-6.5%
\$100,000 and Over	\$1.4	\$2.9	114.5%
Total	\$21.6	\$23.1	7.0%

Premium data is on a Policy Year basis as reported to NCCI, for policies effective from January 1, 2016 to December 31, 2016, and policies effective from January 1, 2017 to December 31, 2017, including prorated cancellations, with all policies' premium associated to the dominant state. Change is calculated based upon the Premium data.

Arkansas Average Size Accounts for Residual Market Policies and Estimated Premium

As of 12/31/17

Premium Range	Policy Count	% of Policies	Total Premium	% of Premium	Average Policy Size
\$0–\$2,499	4,993	73.4%	\$5,203,800	22.6%	\$1,042
\$2,500–\$4,999	894	13.1%	\$3,174,897	13.8%	\$3,551
\$5,000–\$9,999	523	7.7%	\$3,657,506	15.9%	\$6,993
\$10,000–\$19,999	253	3.7%	\$3,388,404	14.7%	\$13,392
\$20,000–\$49,999	100	1.5%	\$3,102,489	13.4%	\$31,024
\$50,000–\$99,999	24	0.4%	\$1,651,058	7.2%	\$68,794
\$100,000–\$199,999	10	0.2%	\$1,275,190	5.5%	\$127,519
\$200,000+	6	0.1%	\$1,623,638	7.0%	\$270,606
Total	6,803	100.0%	\$23,076,982	100.0%	\$3,392

Policy Count and Premium data are on a Policy Year basis as reported to NCCI, for policies effective from January 1, 2017 to December 31, 2017, including prorated cancellations, with all policies' premium associated to the dominant state. % of Policies, % of Premium, and Average Policy Size are calculations from the Policy Count and Premium data.

Residual Market Summary

- National
 - Stable residual market share
 - Manageable operating results
 - Residual market premium declined slightly in 2017
 - High levels of customer service satisfaction
- State
 - Increase in premium volume
 - Stable residual market share
 - Self-funded operating results

For additional state and countrywide information, please visit **ncci.com**.



STATE ADVISORY FORUMS 2018

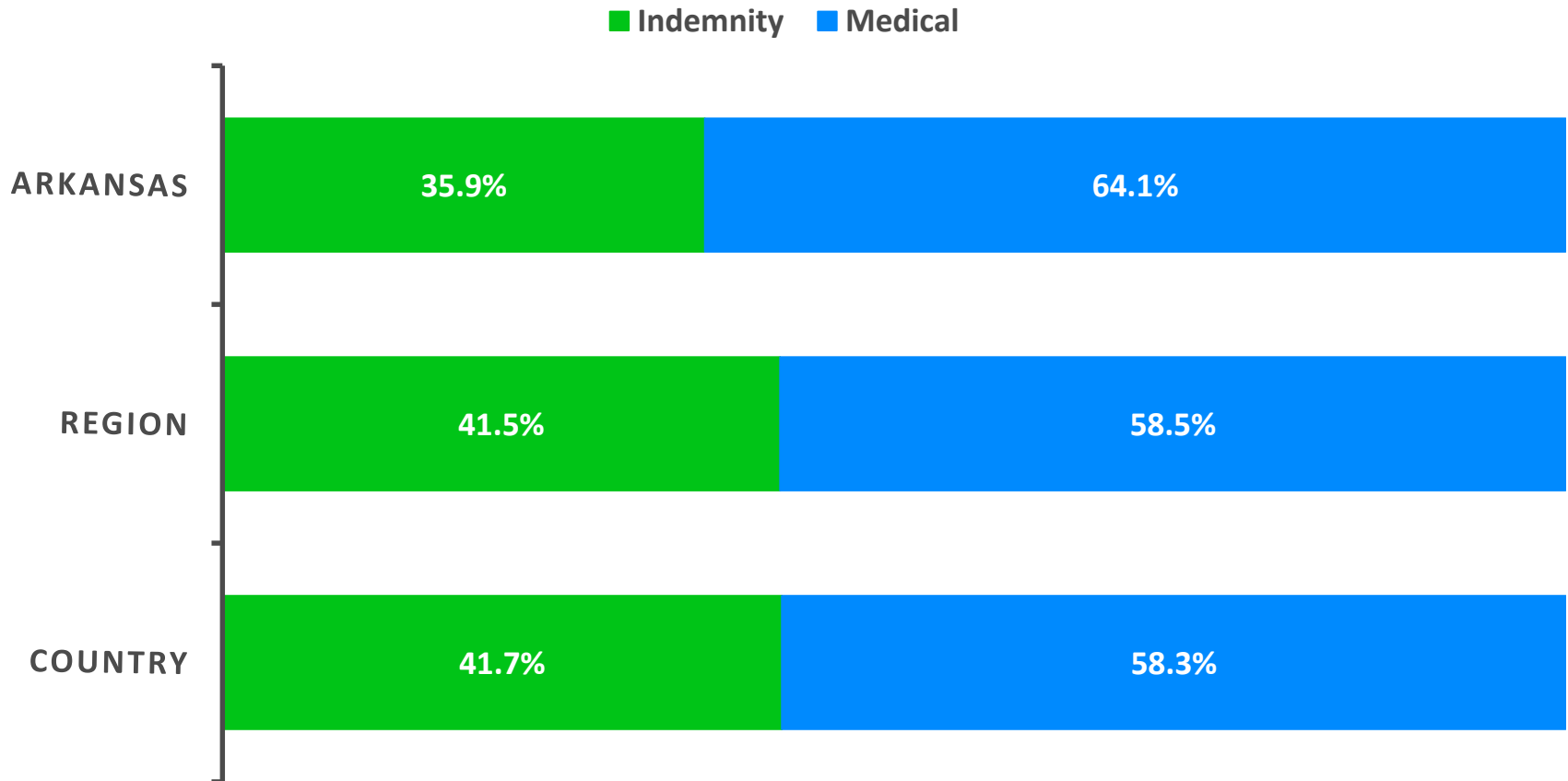
Closing Remarks



STATE ADVISORY FORUMS 2018

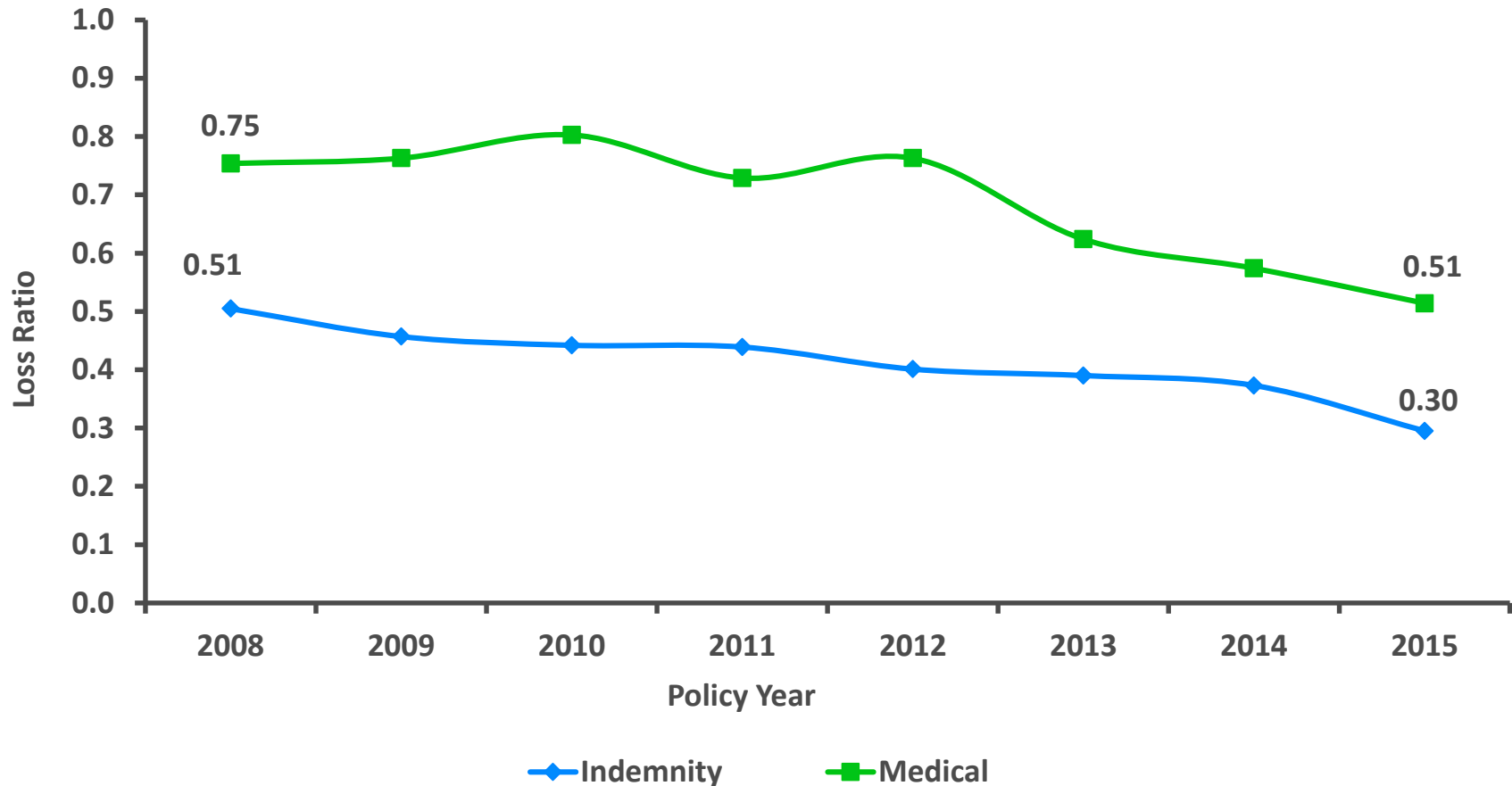
Supplemental Information

Medical Benefits Constitute the Majority of Total Benefit Costs in Arkansas



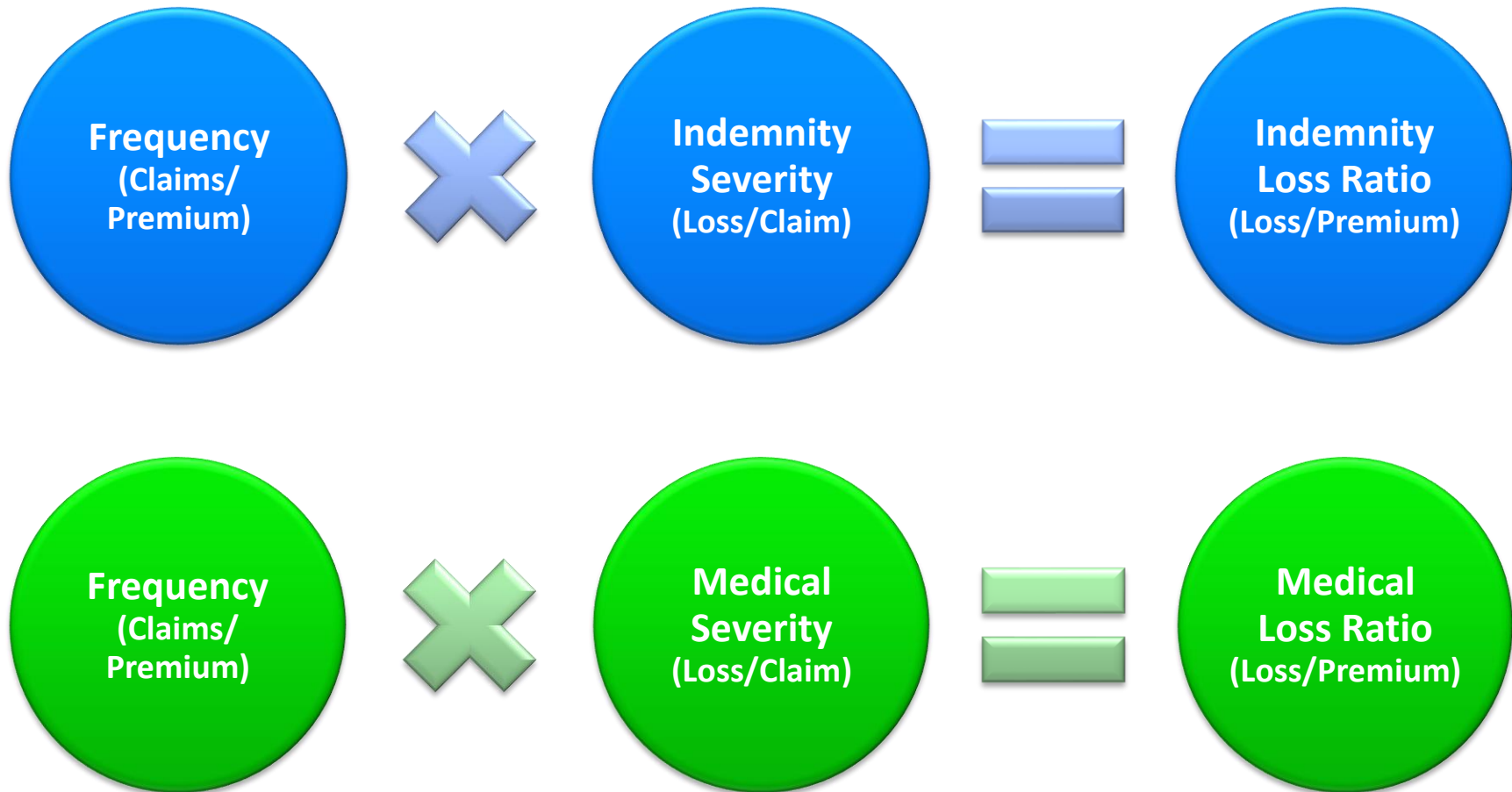
Regional states are LA, MO, MS, OK, TN, and TX
Based on NCCI's financial data through 12/31/2016

Arkansas Indemnity and Medical Loss Ratios

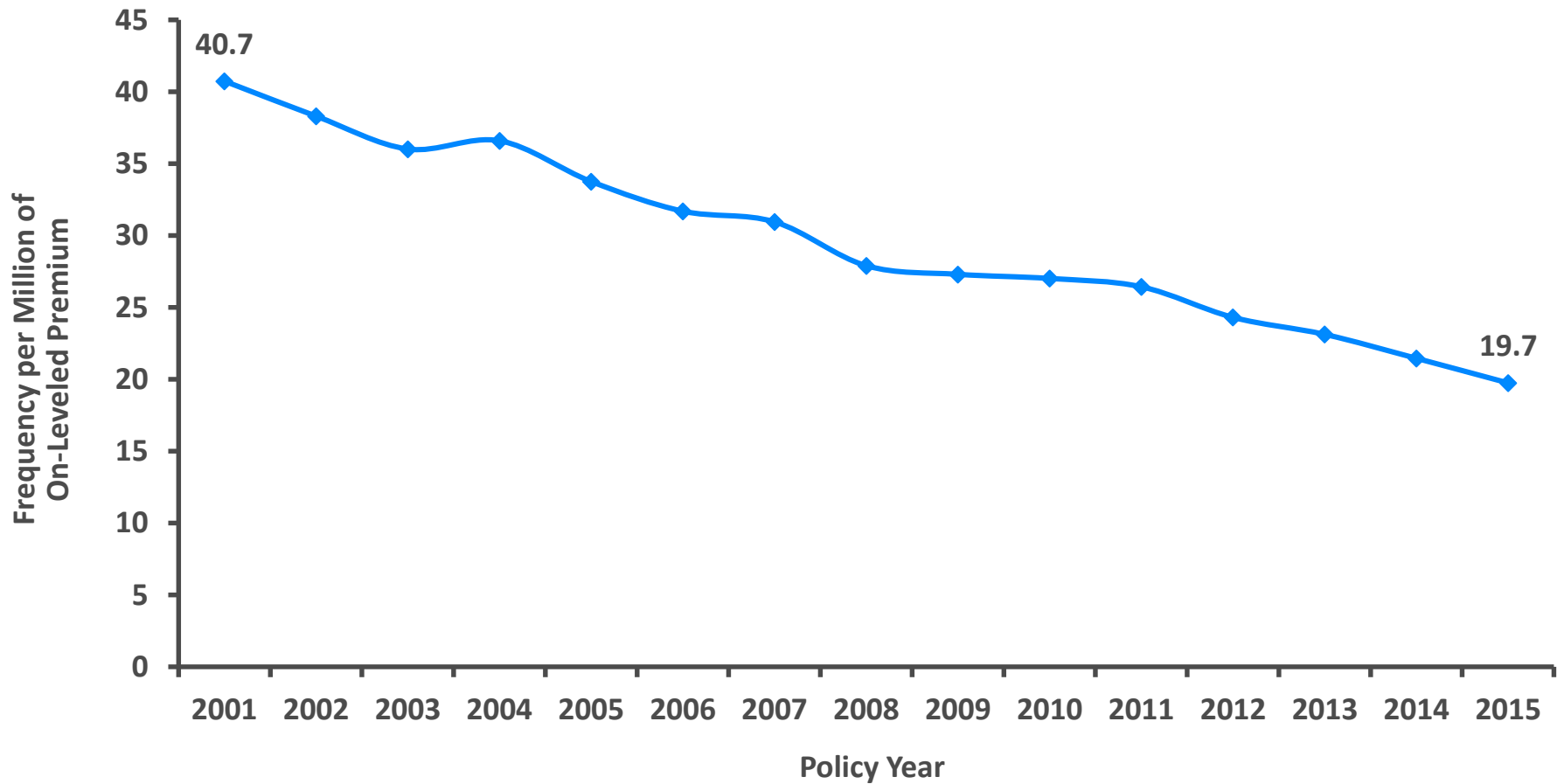


Based on NCCI's financial data through 12/31/2016 at current benefit level and developed to ultimate

What Drives Indemnity and Medical Loss Ratios?

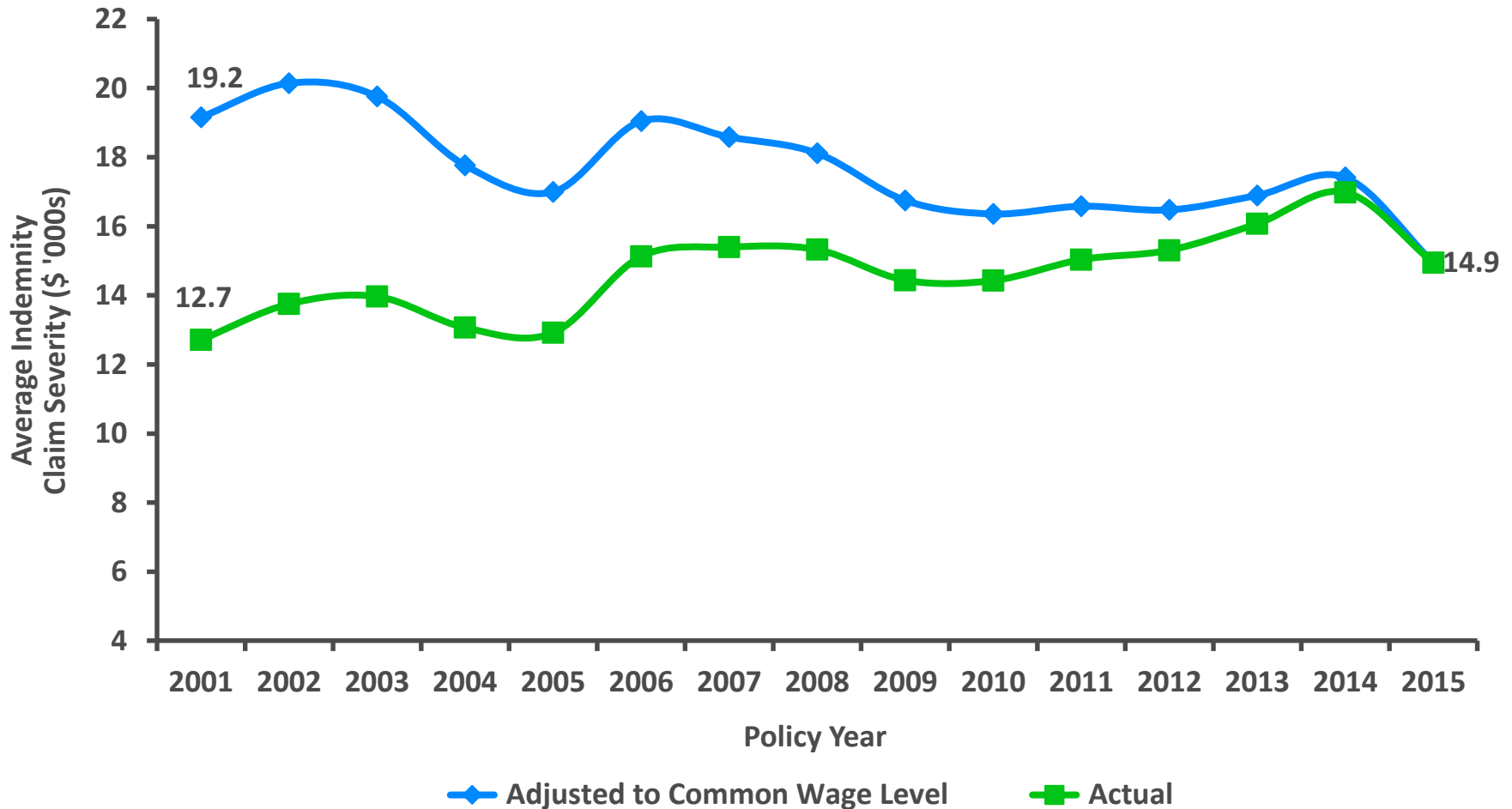


Arkansas Claim Frequency



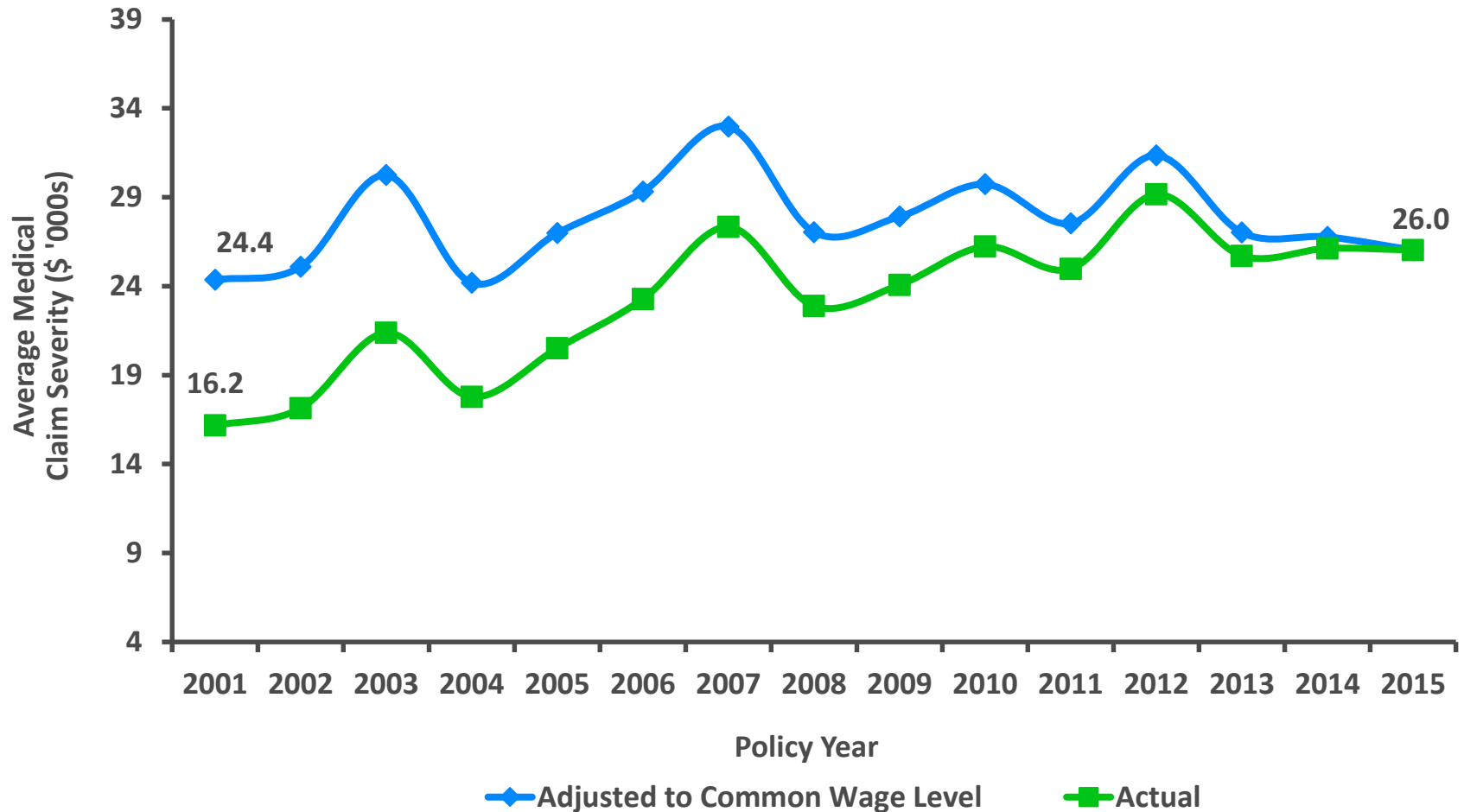
Based on NCCI's financial data through 12/31/2016 adjusted to a common wage level

Arkansas Average Indemnity Claim Severity



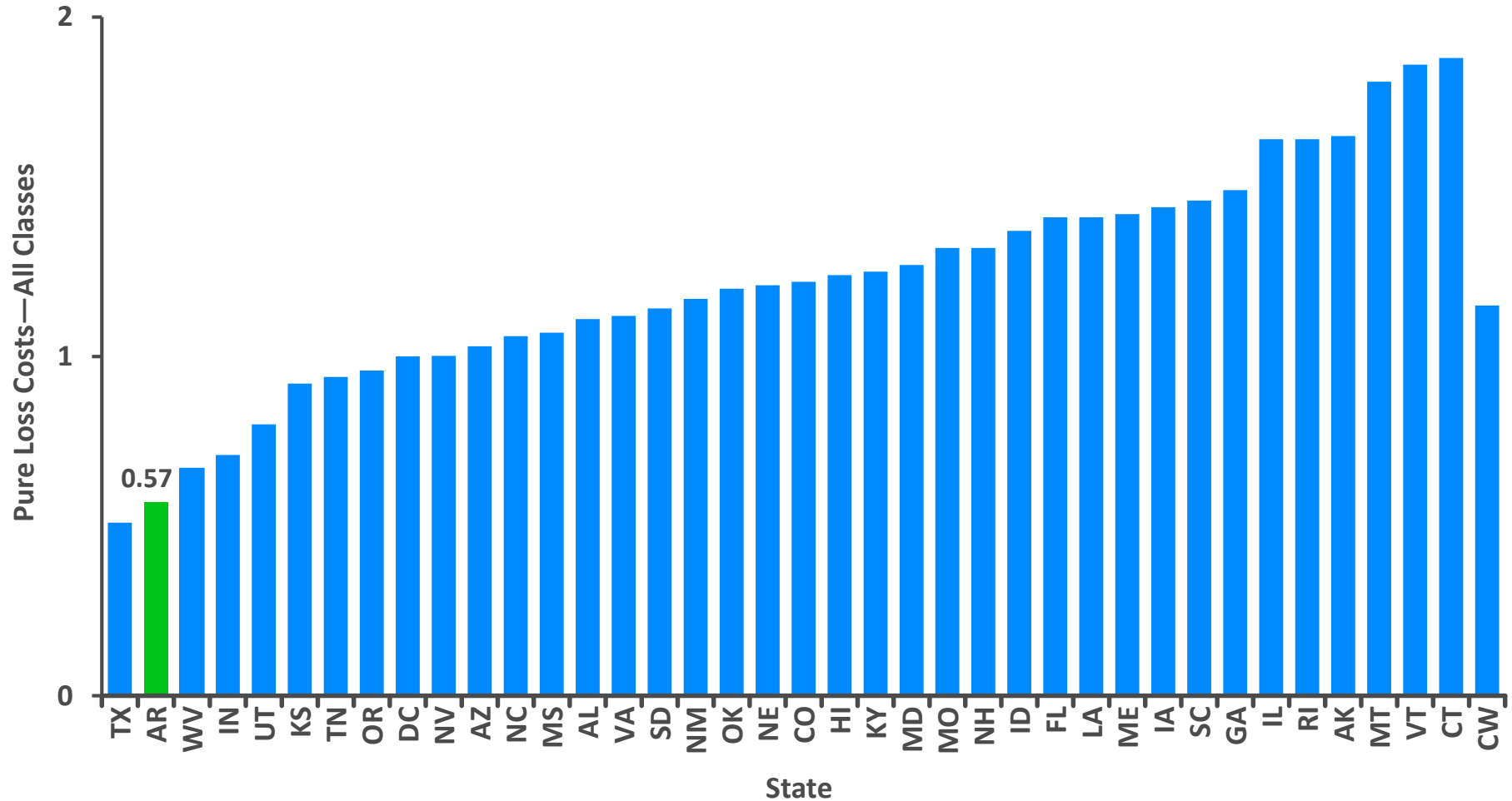
Based on NCCI's financial data through 12/31/2016 for lost-time claims at current benefit level and developed to ultimate

Arkansas Average Medical Claim Severity



Based on NCCI's financial data through 12/31/2016 for lost-time claims at current benefit level and developed to ultimate

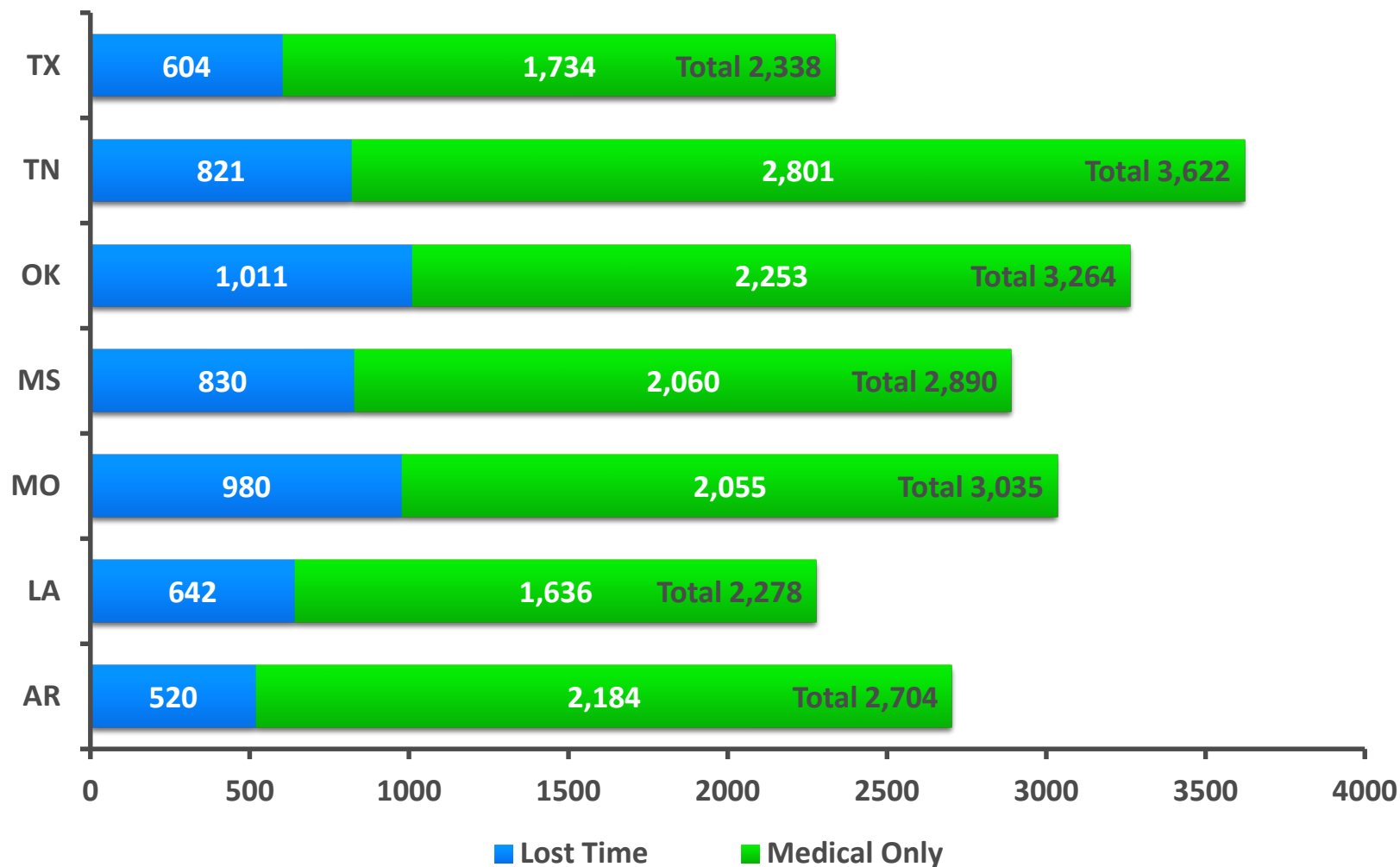
Current Average Voluntary Pure Loss Costs Using Arkansas Payroll Distribution



Based on the latest NCCI approved rates and loss costs in the various states

Arkansas Average Claim Frequency

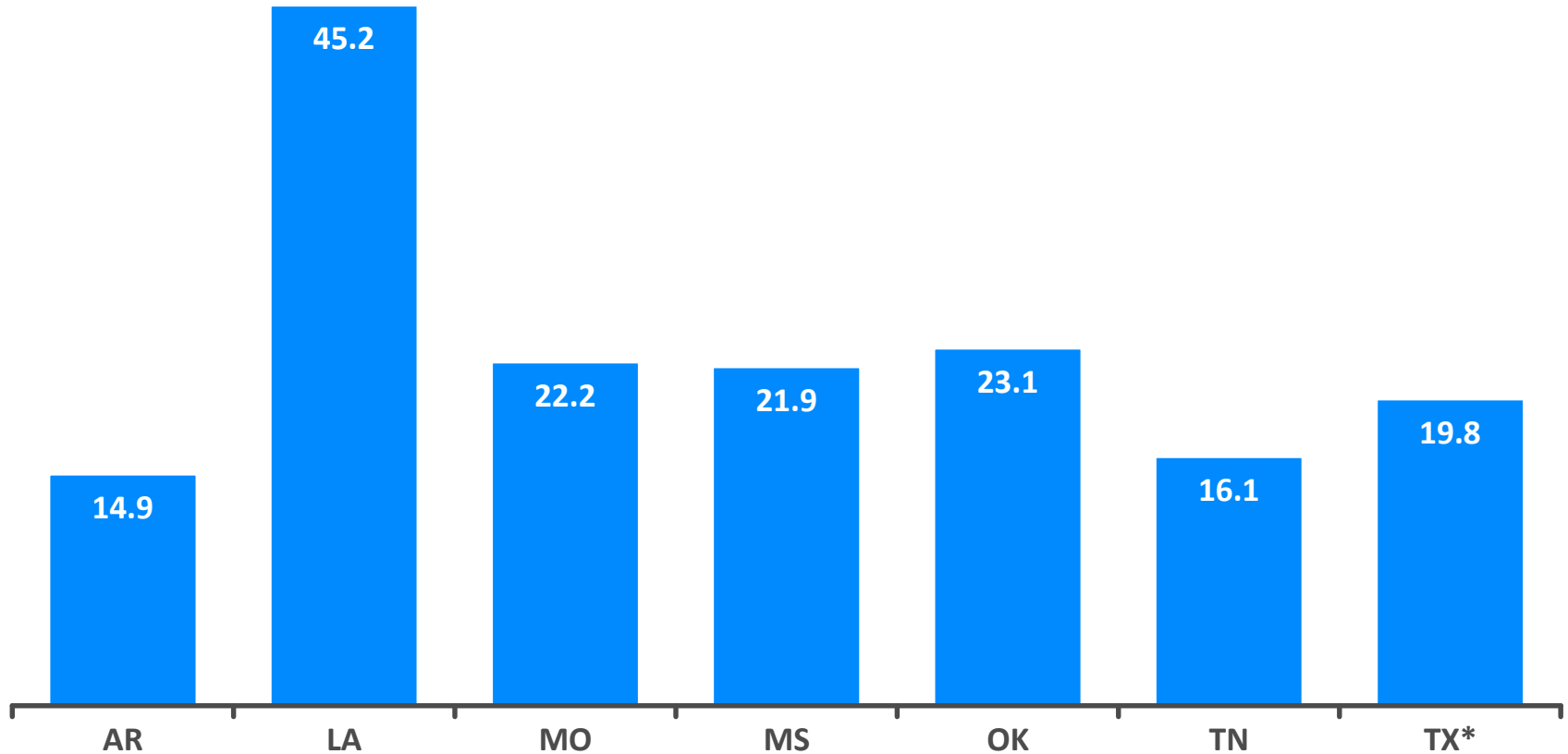
Frequency per 100,000 Workers—All Claims



Based on NCCI's *Statistical Plan* data

Average Indemnity Claim Severity in the Region

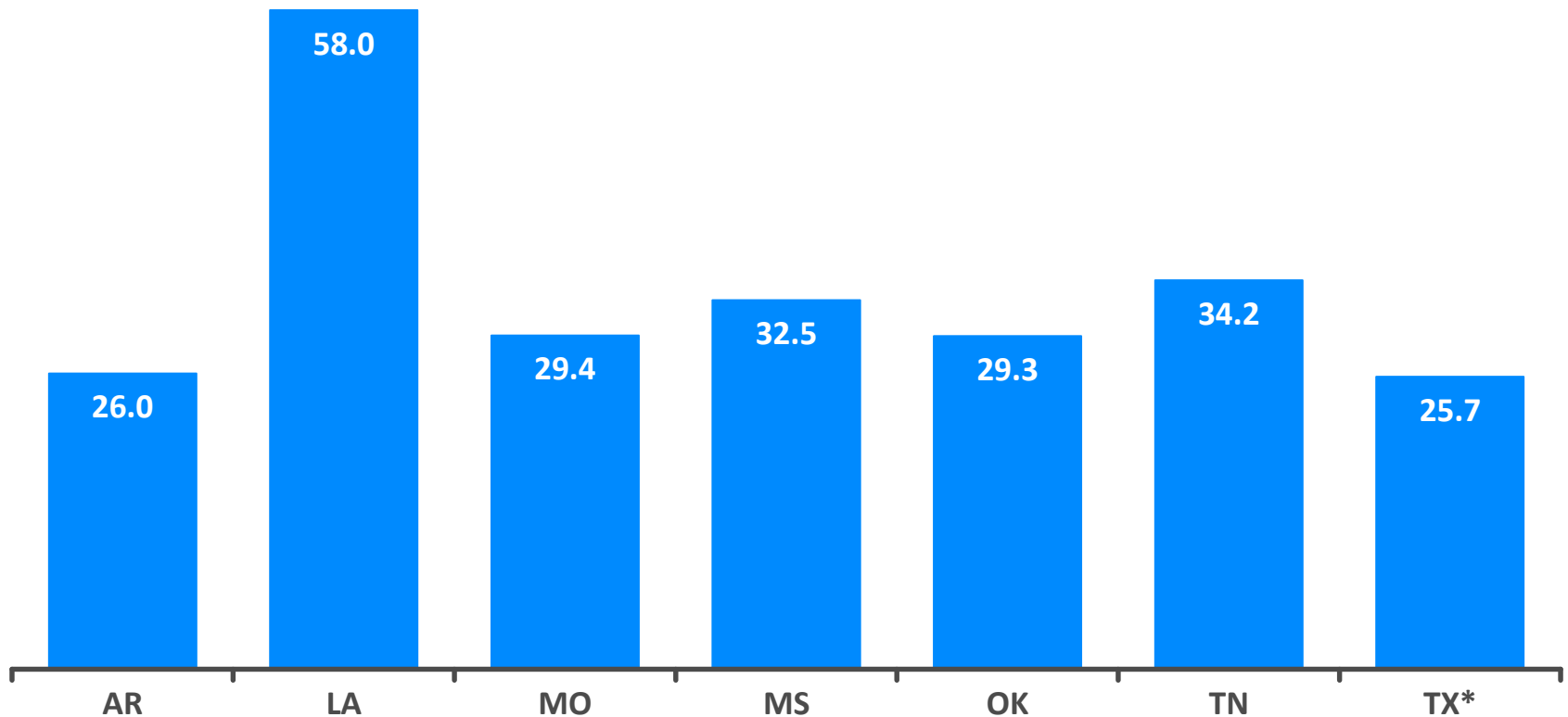
Lost-Time Claim Severity in \$ Thousands



*Unlimited
Based on NCCI's financial data

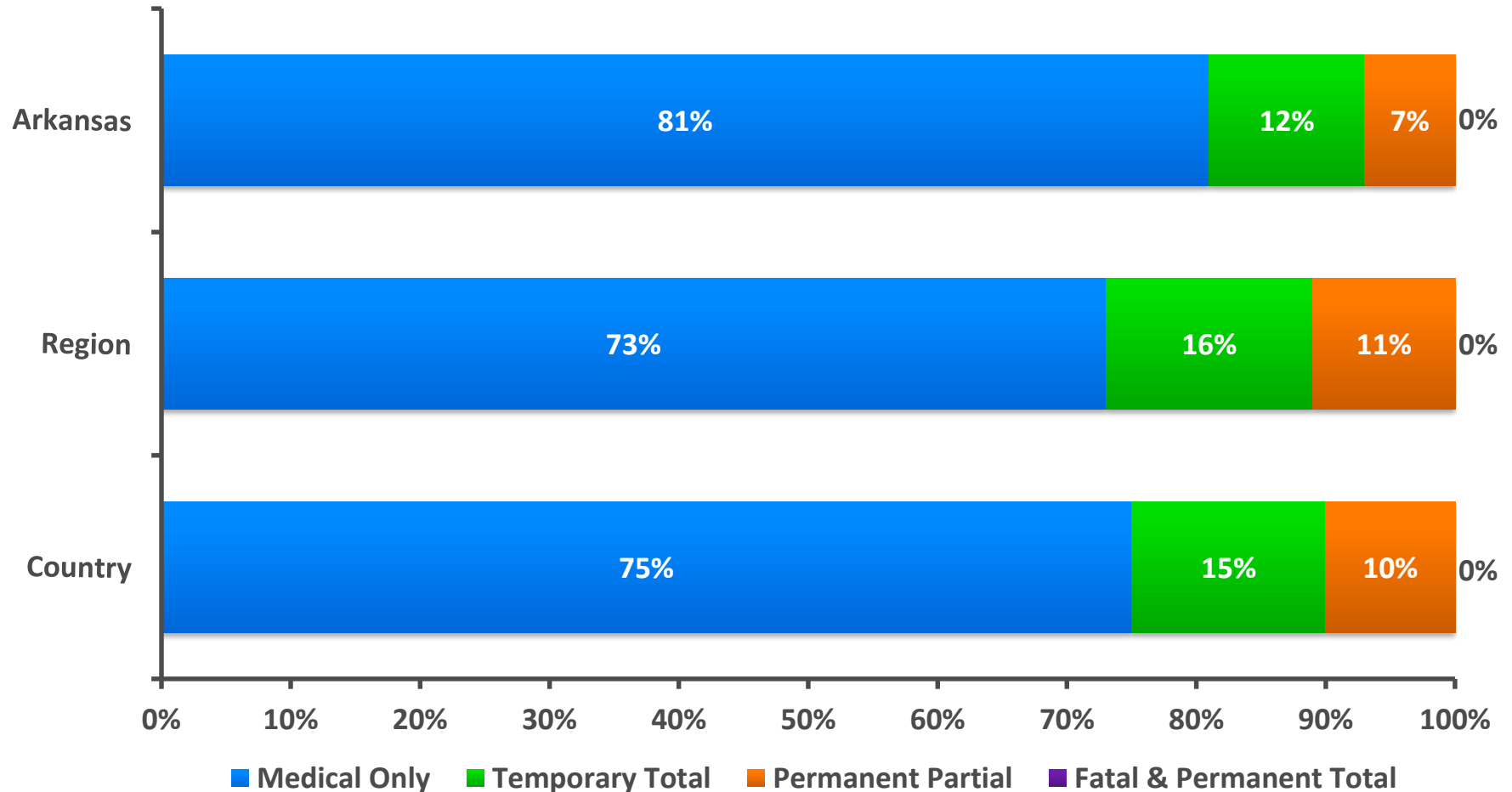
Average Medical Claim Severity in the Region

Lost-Time Claim Severity in \$ Thousands



*Unlimited
Based on NCCI's financial data

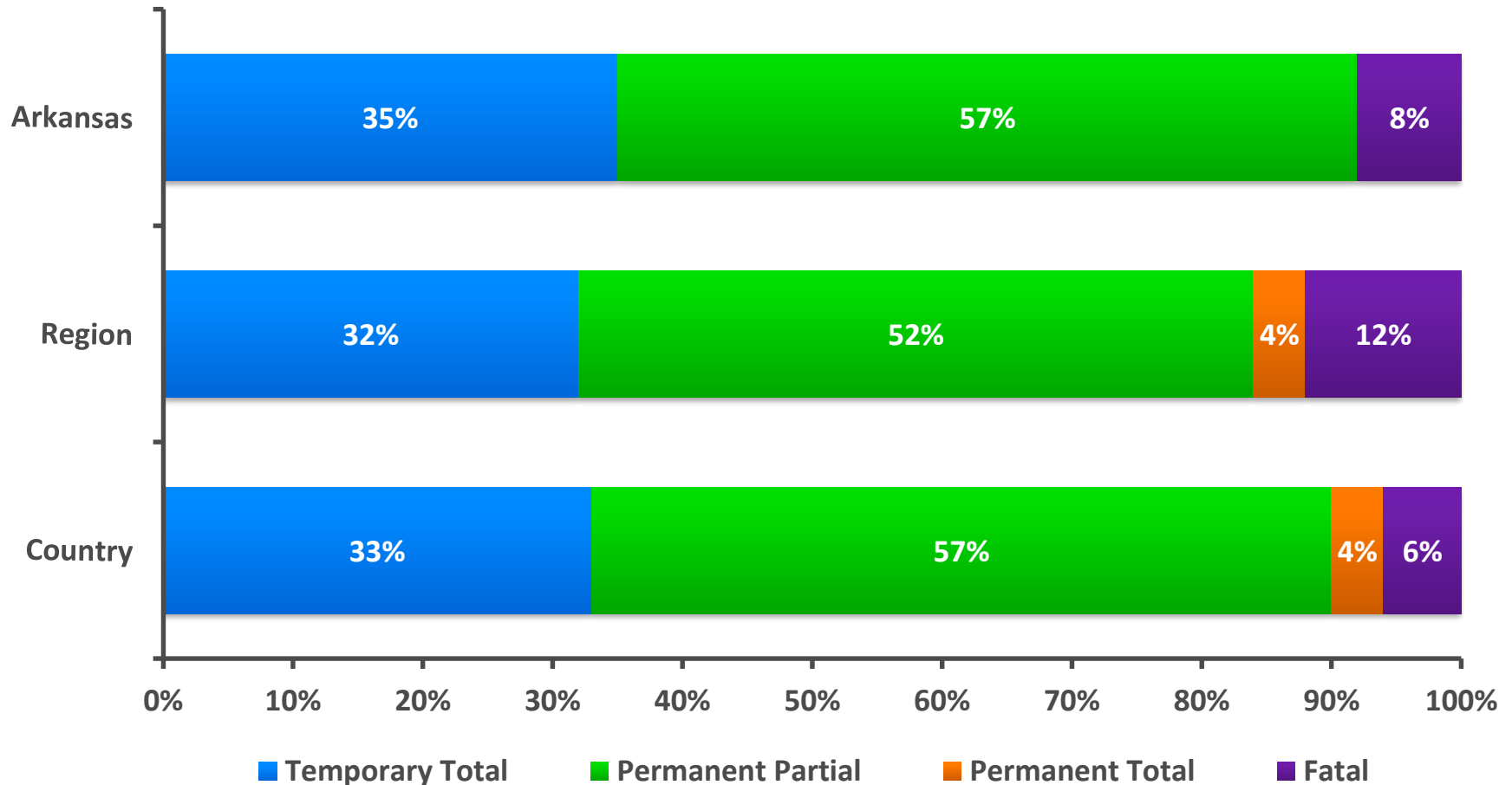
Arkansas Distribution of Claims by Injury Type



Regional states are LA, MO, MS, OK, TN, and TX

Based on NCCI's *Statistical Plan* data for jurisdiction/claim type combinations for which three or more cases exist

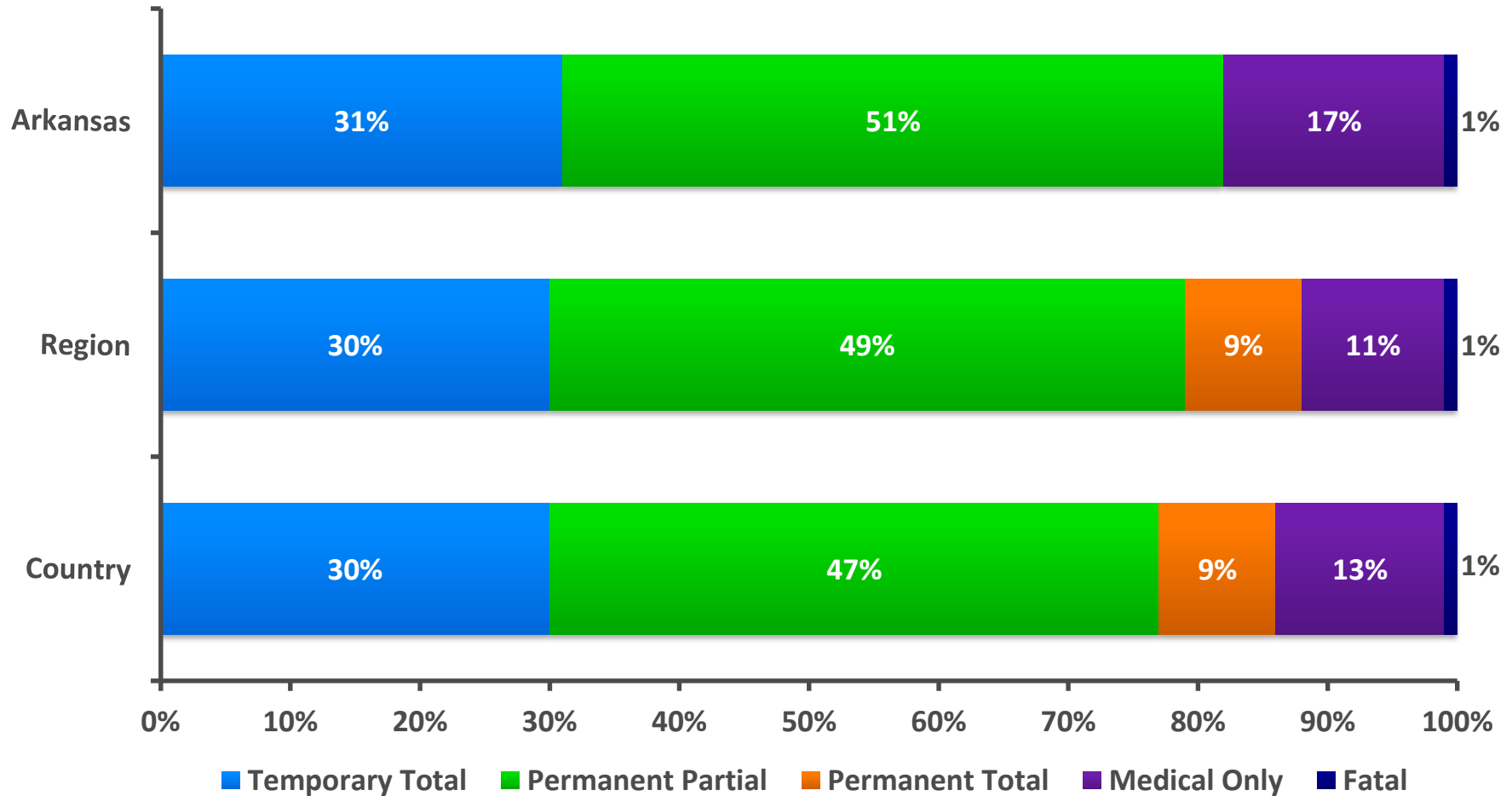
Arkansas Indemnity Loss Distribution by Injury Type



Regional states are LA, MO, MS, OK, TN, and TX

Based on NCCI's **Statistical Plan** data for jurisdiction/claim type combinations for which three or more cases exist

Arkansas Medical Loss Distribution by Injury Type



Regional states are LA, MO, MS, OK, TN, and TX

Based on NCCI's *Statistical Plan* data for jurisdiction/claim type combinations for which three or more cases exist



STATE ADVISORY FORUMS 2018

Glossary

Glossary

- **Assigned Risk Adjustment Program (ARAP)**—An assigned risk market program that surcharges residual market risks based on the magnitude of their experience rating modification.
- **Calendar Year (CY)**—Experience of earned premium and loss transactions occurring within the calendar year beginning January 1, irrespective of the contractual dates of the policies to which the transactions relate and the dates of the accidents.
- **Calendar-Accident Year (AY)**—The accumulation of loss data on all accidents with the date of occurrence falling within a given calendar year. The premium figure is the same as that used in calendar year experience.
- **Claim Frequency**—The number of claims per unit of exposure; for example, the number of claims per million dollars of premium or per 100 workers.

Glossary

- **Claim Severity**—The average cost of a claim. Severity is calculated by dividing total losses by the total number of claims.
- **Combined Ratio**—The sum of the (1) loss ratio, (2) expense ratio, and (3) dividend ratio for a given time period.
- **Detailed Claim Information (DCI)**—An NCCI Call that collects detailed information on an individual workers compensation lost-time claim basis, such as type of injury, whether or not an attorney was involved, and the timing of the claim's report to the carrier.
- **Direct Written Premium (DWP)**—The gross premium income adjusted for additional or return premiums, but excluding any reinsurance premiums.

Glossary

- **Indemnity Benefits**—Payments by an insurance company to cover an injured worker's time lost from work. These benefits are also referred to as “wage replacement” benefits.
- **Loss Ratio**—The ratio of losses to premium for a given time period.
- **Lost-Time (LT) Claims**—Claims resulting in indemnity benefits (and usually medical benefits) being paid to or on behalf of the injured worker for time lost from work.
- **Medical-Only Claims**—Claims resulting in only medical benefits being paid on behalf of an injured worker.
- **Net Written Premium (NWP)**—The gross premium income adjusted for additional or return premiums and including any additions for reinsurance assumed and any deductions for reinsurance ceded.

Glossary

- **Permanent Partial (PP)**—A disability that is permanent but does not involve a total inability to work. The specific definition and associated workers compensation benefits are defined by statute and vary by jurisdiction.
- **Policy Year (PY)**—The year of the effective date of the policy. Policy year financial results summarize experience for all policies with effective dates in a given calendar year period.
- **Schedule Rating**—A debit and credit plan that recognizes variations in the hazard-causing features of an individual risk.
- **Take-Out Credit Program**—An assigned risk program that encourages carriers to write current residual market risks in the competitive voluntary marketplace.
- **Temporary Total (TT)**—A disability that totally disables a worker for a temporary period of time.



STATE ADVISORY FORUMS 2018

Appendix

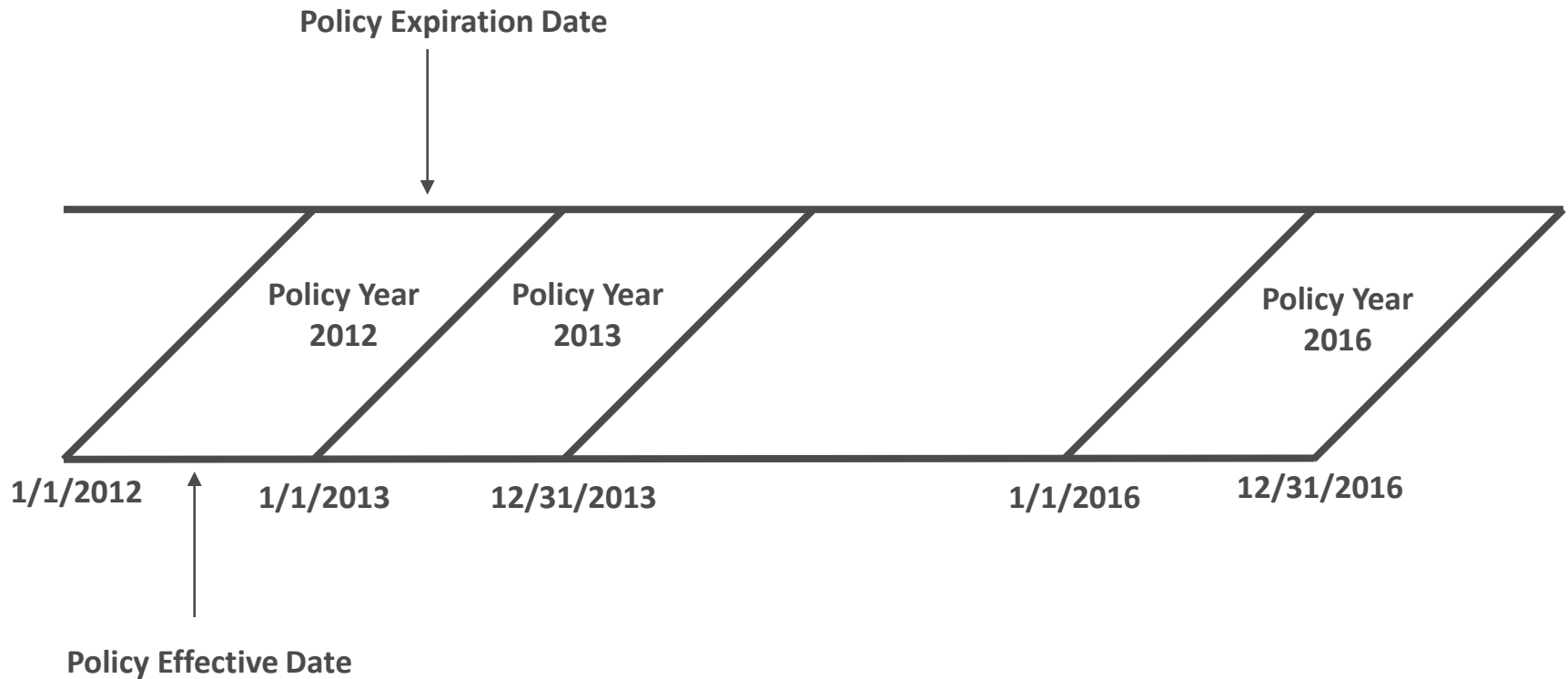
NCCI's Worker Compensation Resources

- Financial Aggregate Calls
 - Used for aggregate ratemaking
- ***Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan)***
 - Used for class ratemaking
- Detailed Claim Information
 - In-depth sample of lost-time claims
- Policy Data
 - Policy declaration page information

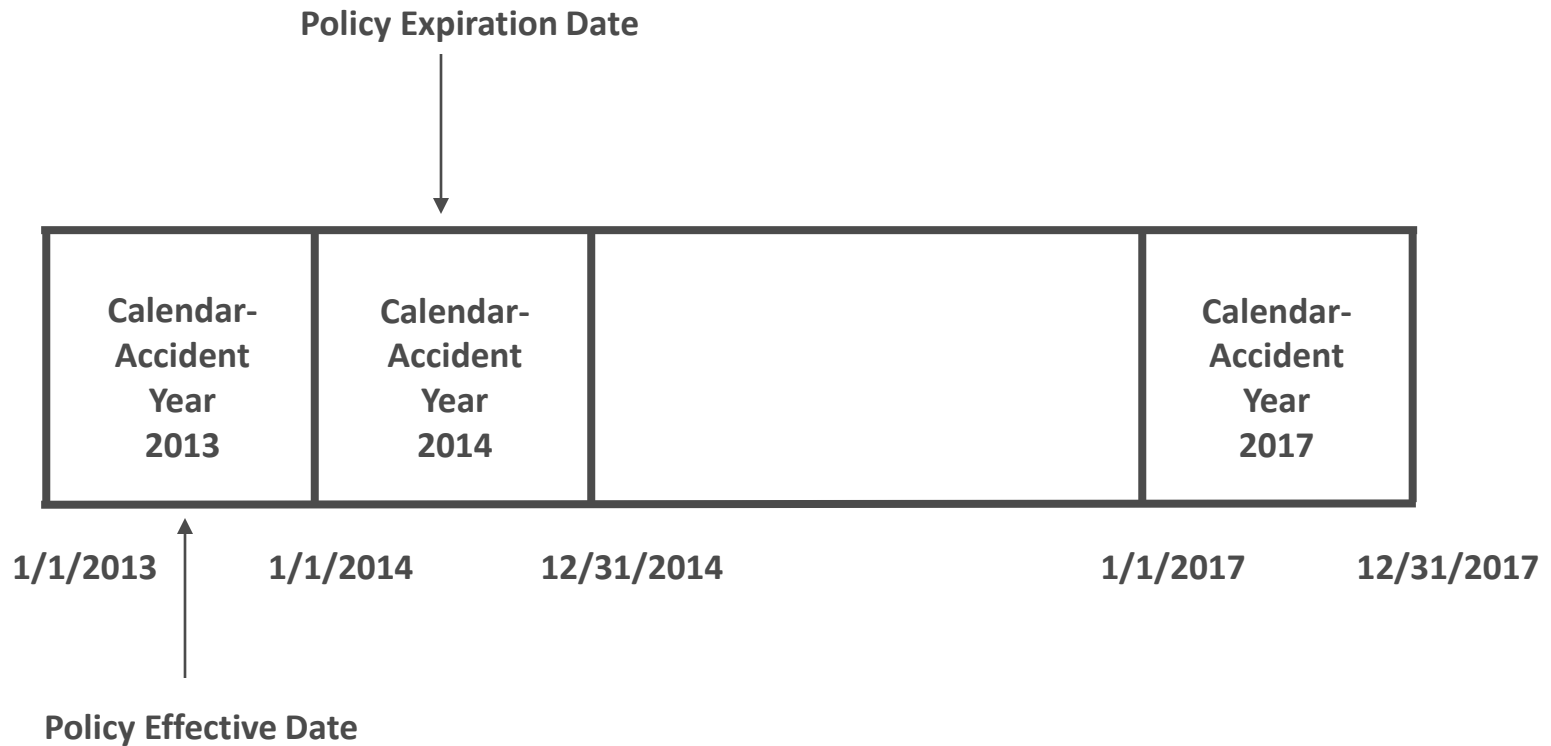
Financial Aggregate Calls

- Collected Annually
 - Policy and calendar-accident year basis
 - Statewide and assigned risk data
- Premiums, Losses, and Claim Counts
 - Evaluated as of December 31
- Purpose
 - Basis for overall aggregate rate indication
 - Research

Policy Year Financial Aggregate Data



Calendar-Accident Year Financial Aggregate Data



Statistical Plan for Workers Compensation and Employers Liability Insurance (Statistical Plan) Data

- Experience by Policy Detail
 - Exposure, premium, and experience rating modifications
 - Individual claims by injury type
- Purposes
 - Classification relativities
 - Experience Rating Plan
 - Research

Valuation of Statistical Plan Data





EXHIBIT "B"



Arkansas Residual Market State Activity Report

Second Quarter 2018



Arkansas Residual Market State Activity Report

Second Quarter 2018

Executive Summary

NCCI, as Pool and Plan Administrator of the Arkansas Workers Compensation Insurance Plan, is pleased to provide the Second Quarter 2018 *Arkansas Residual Market State Activity Report*.

Readers will notice that the order of our charts and tables has been reorganized, based on customer feedback. This will provide a more streamlined picture of the key measurement factors and issues relating to the operation of the Arkansas Plan. Residual Market demographics contained in this report include:

Table of Contents

Residual Market Demographics

Residual Market Total Policies and Premium in Force	1
Arkansas Residual Market Reinsurance Pool Booked Loss Ratio.....	2
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Residual Market Total Premium Volume.....	7
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Residual Market Top 10 Classification Codes by Policy Count.....	9
Residual Market Top 10 Classification Codes by Premium Volume	9
Glossary of Terms.....	10

If you have any questions or comments about this report, please feel free to contact the individual listed below.

Sean Cordell, Plan Administration

561-893-3171

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Residual Market Demographics

Residual Market Total Policies and Premium in Force

As of June 30, 2018—compared to prior year

Total number of Assigned Risk Plan policies and estimated premium volume in force reported as of the date listed above. The other exhibits in this report describe quarterly and year-to-date data.

	2018	2017	2018 vs. 2017 #	2018 vs. 2017 %
Policy Count	6,722	6,804	-82	-1.2%
Premium Volume	\$22,148,541	\$21,720,761	\$427,780	2.0%

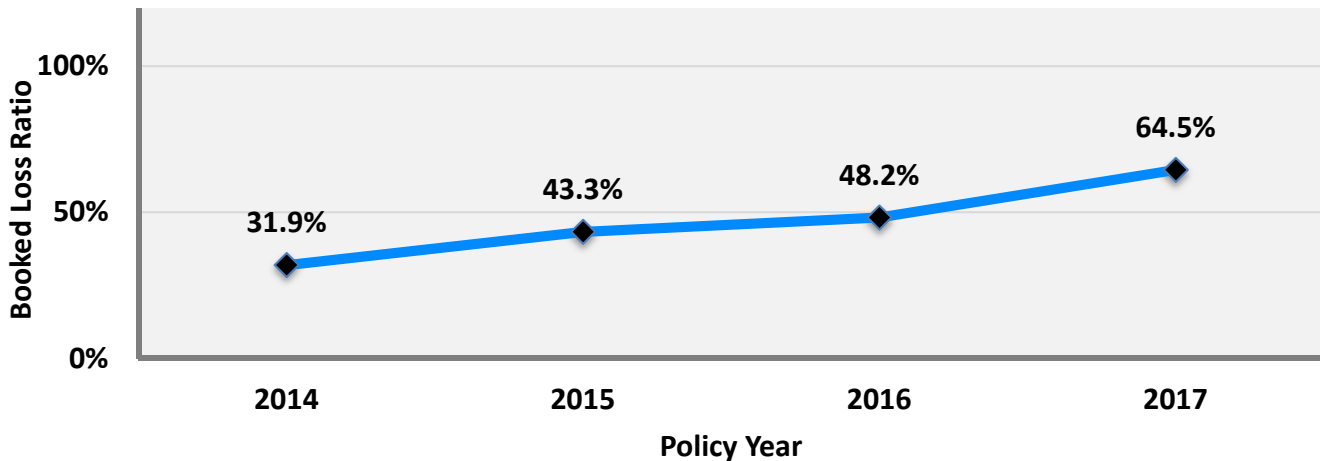


Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Booked Loss Ratio

Policy Year Financial Results through 1st Quarter 2018 for 2017 and prior years*

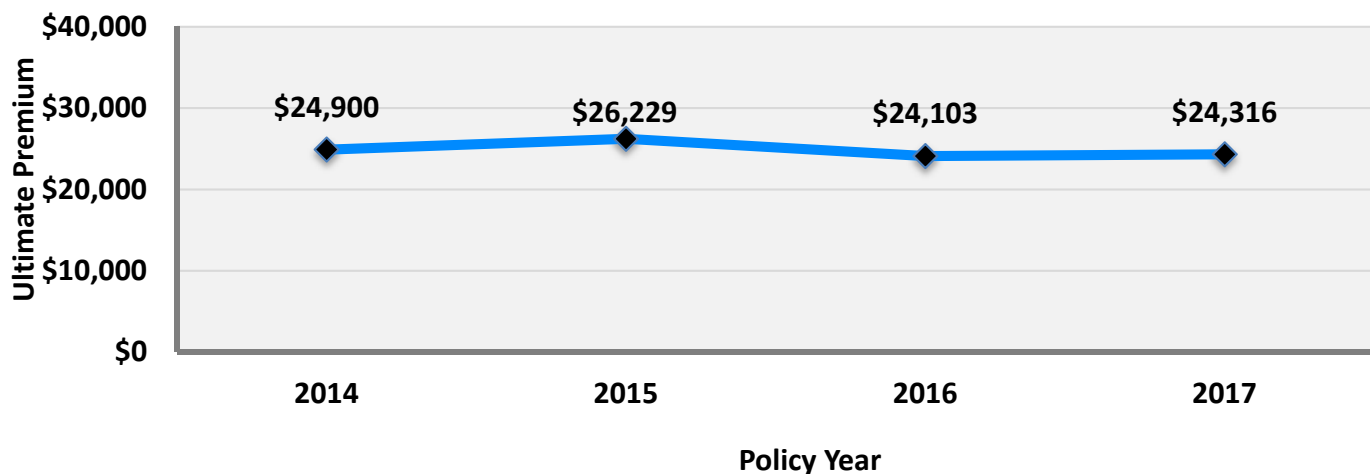
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage.



Arkansas Residual Market Reinsurance Pool Ultimate Net Written Premium (Projected to Ultimate) (000's)

Policy Year Financial Results through 1st Quarter 2018 for 2017 and prior years*

The premium charged by an insurance company for the period of time and coverage provided by an insurance contract in this state.



* Second Quarter 2018 data will be available the end of October 2018 due to the timing of data reporting

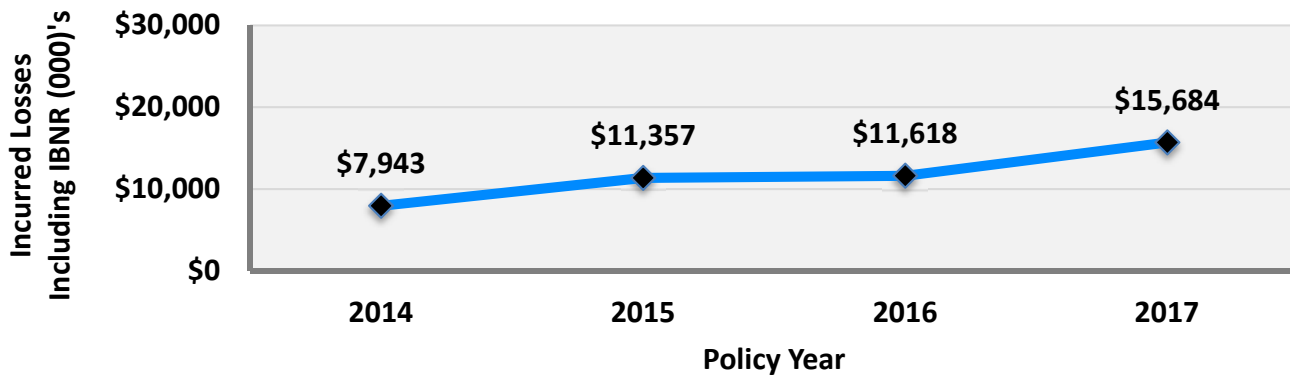


Residual Market Demographics

Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Incurred Losses

Policy Year Financial Results through 1st Quarter 2018 for 2017 and prior years*

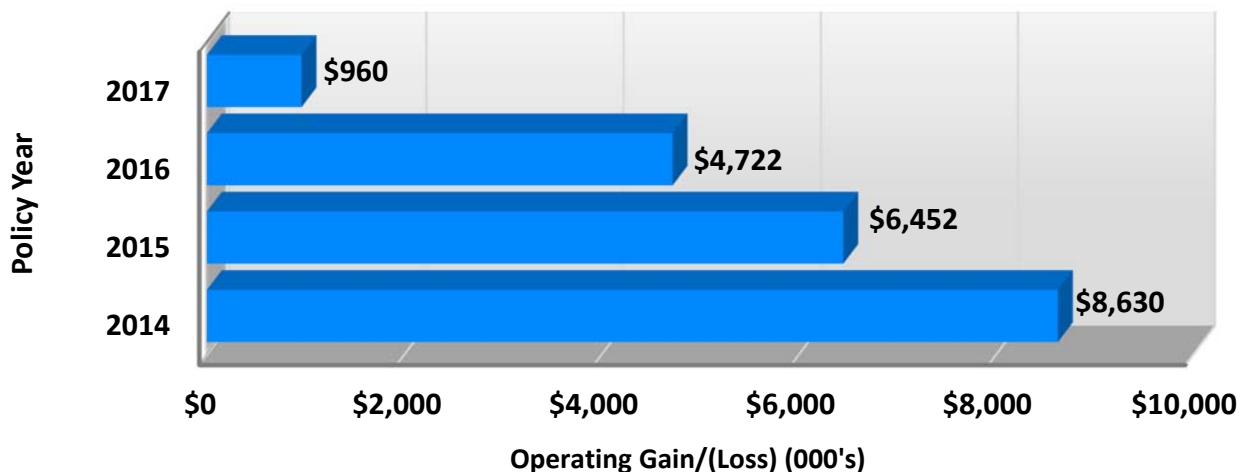
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



Arkansas Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Estimated Net Operating Gain/(Loss) (000's)

Policy Year Financial Results through 1st Quarter 2018 for 2017 and prior years*

The financial statement presentation that reflects the excess of earned premium over incurred losses, less all operating expenses, plus all investment income in that state.



* Second Quarter 2018 data will be available the end of October 2018 due to the timing of data reporting



Residual Market Demographics

Collections/Indemnification

The following shows a comparison of gross written premium and uncollectible premium reported in Arkansas for Policy Years 2014-2018, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through 1st Quarter 2018.

Policy Year	Gross Written Premium	Uncollectible Premium	Percentage
2014	25,338,950	439,338	1.7%
2015	26,819,846	590,380	2.2%
2016	24,875,468	459,744	1.8%
2017	24,088,687	*	N/A
2018	4,610,654	*	N/A

* The uncollectible premiums provided are reported by the servicing carriers on a quarterly basis.

Uncollectible premium is generally reported up to 24 months after the policy expiration date due to audit, billing, and collection requirements. Therefore, the uncollectible premium data has not yet developed for the more recent policy years.



Residual Market Demographics

Voluntary Coverage Assistance Program

Second Quarter Data through June 30, 2018

The volume of assigned risk applications redirected to the voluntary market through NCCI's **VCAP[®] Service**. The following shows the results **VCAP[®] Service** has provided during Second Quarter 2018.

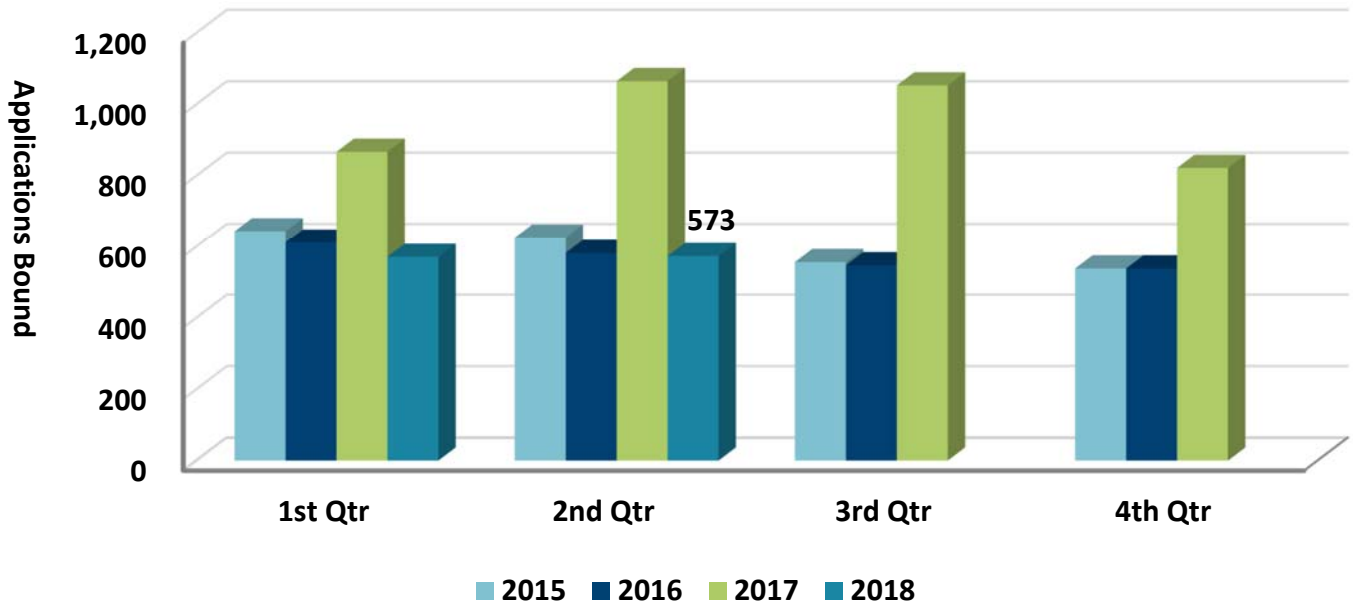
Number of Applications Reviewed by VCAP[®] Service	639
Number of VCAP[®] Service Matches	579
VCAP[®] Service Offers as a % of Matches	11.74%
Number of Confirmed VCAP[®] Service Policies	64
Confirmed VCAP[®] Service Policies as a % of Applications Reviewed	10.02%
Savings as a % of Redirected Assigned Risk Premium	5.79%



Residual Market Demographics

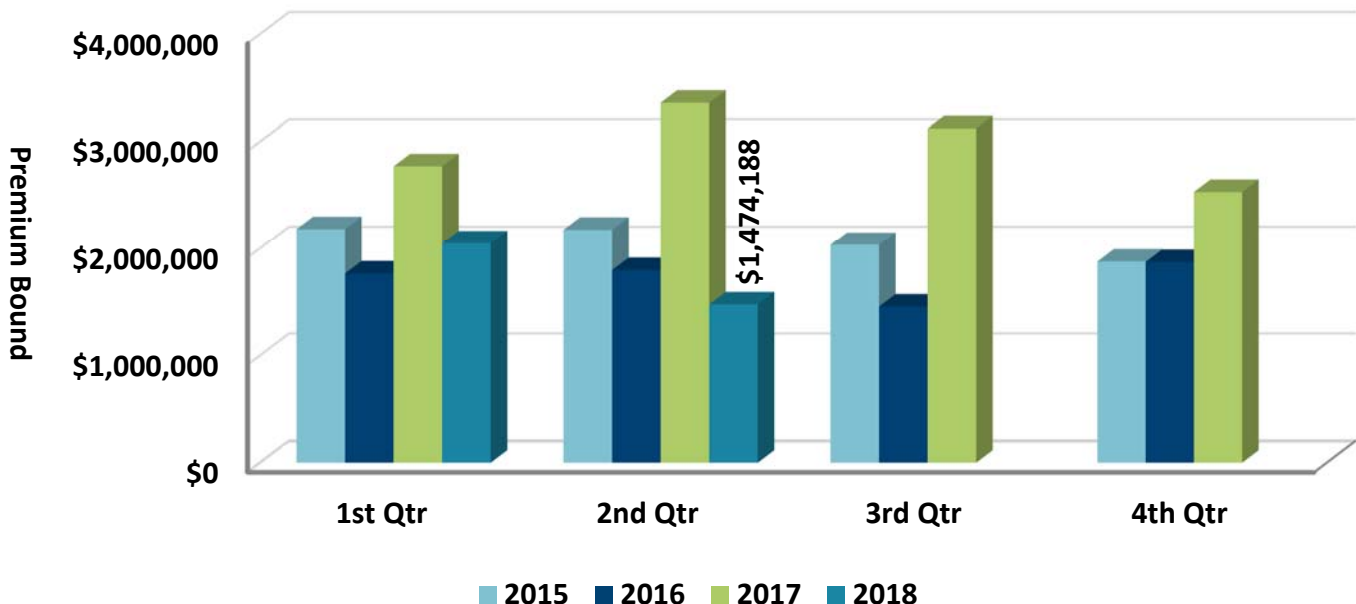
Total Applications Bound — 2015 vs. 2016 vs. 2017 vs. 2018

The number of applications—both new and churn—that are assigned to a Servicing Carrier or a Direct Assignment Carrier (if applicable).



Total Application Premium Bound — 2015 vs. 2016 vs. 2017 vs. 2018

The total estimated premium on bound applications—both new and churn—that are assigned to a Servicing Carrier or a Direct Assignment Carrier (if applicable).



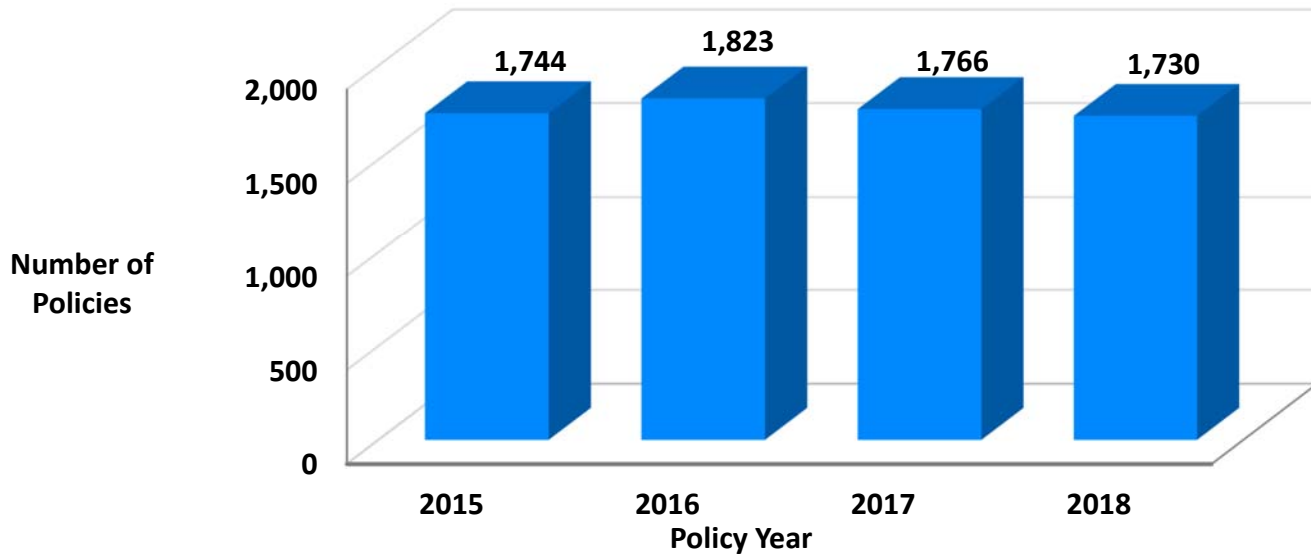


Residual Market Demographics

Residual Market Total Policy Counts

Second Quarter Data for Policies Reported through June 30, 2018

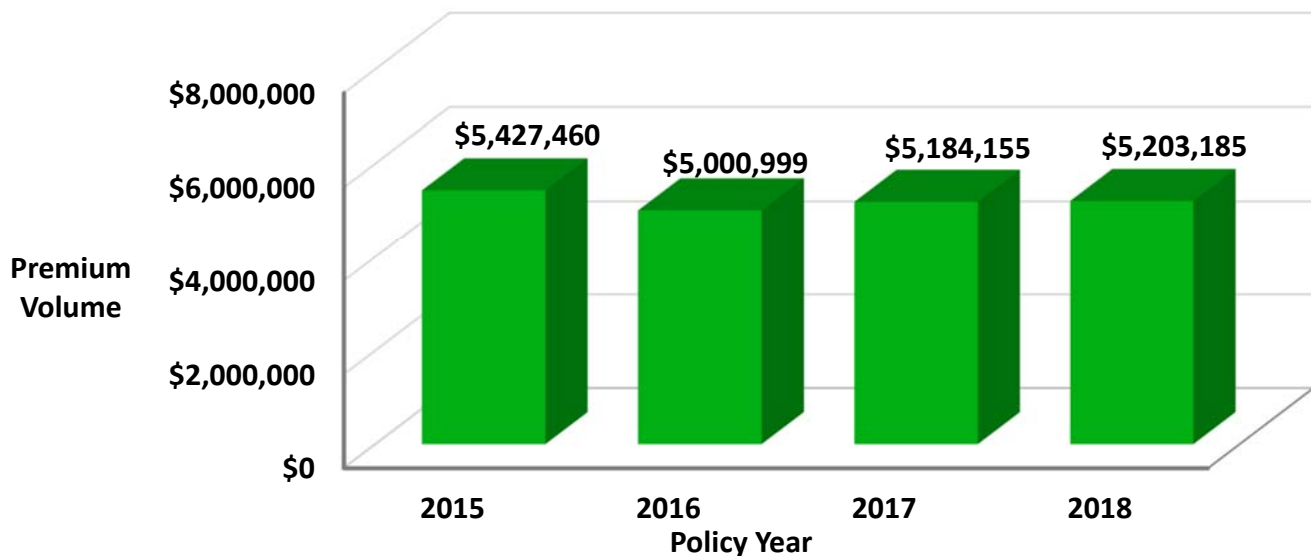
Total number of all Assigned Risk Plan policies with effective dates during the calendar period listed above.



Residual Market Total Premium Volume

Second Quarter Data Reported through June 30, 2018

Total amount of all Assigned Risk Plan premium with effective dates during the calendar period listed above.





Arkansas Residual Market State Activity Report

Second Quarter 2018

Residual Market Demographics

Total Premium Distribution by Size of Risk

Second Quarter Data Reported through June 30, 2018

The total number of Assigned Risk Plan policies reported to NCCI by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0–2499	1,249	72.2%	\$1,300,064	25.0%	\$1,040
\$2500–4999	233	13.5%	\$818,124	15.7%	\$3,511
\$5000–9999	154	8.9%	\$1,072,162	20.6%	\$6,962
\$10000–19999	65	3.8%	\$890,570	17.1%	\$13,701
\$20000–49999	25	1.5%	\$750,102	14.4%	\$30,004
\$50000–99999	2	0.1%	\$127,198	2.4%	\$63,599
\$100000–199999	2	0.1%	\$244,965	4.7%	\$122,482
\$200000 +	0	0.0%	\$0	0.0%	\$0
Total	1,730	100%	\$5,203,185	100%	\$3,008

Second Quarter 2017 Data for Comparison

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0–2499	1,310	74.2%	\$1,375,853	26.5%	\$1,050
\$2500–4999	225	12.7%	\$795,309	15.3%	\$3,534
\$5000–9999	131	7.4%	\$918,587	17.7%	\$7,012
\$10000–19999	72	4.1%	\$969,204	18.7%	\$13,461
\$20000–49999	23	1.3%	\$707,137	13.6%	\$30,745
\$50000–99999	3	0.2%	\$166,561	3.2%	\$55,520
\$100000–199999	2	0.1%	\$251,504	4.9%	\$125,752
\$200000 +	0	0.0%	\$0	0.0%	\$0
Total	1,766	100%	\$5,184,155	100%	\$2,936



Arkansas Residual Market State Activity Report

Second Quarter 2018

Residual Market Demographics

Residual Market Top 10 Classification Codes by Policy Count Second Quarter Data Reported through June 30, 2018

The top 10 governing class codes by total policy count—policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Policy Count	% of Policies
1	5645	Carpentry Construction of Residential Dwellings Not Exceeding Three Stories in Height	367	21.2%
2	5551	Roofing-All Kinds & Drivers	118	6.8%
3	5437	Carpentry-Installation of Cabinet Work or Interior Trim	63	3.6%
4	9014	Janitorial Services by Contractors-No Window Cleaning Above Ground Level & Drivers	53	3.1%
5	6217	Excavation & Drivers	51	3.0%
6	5474	Painting NOC & Shop Operations Drivers	50	2.9%
7	5022	Masonry NOC	44	2.5%
8	5445	Wallboard Sheetrock Drywall Plasterboard or Cement Board Installation Within Buildings	43	2.5%
9	7228	Trucking-Local Hauling Only-& Drivers	43	2.5%
10	5221	Concrete or Cement Work- Floors Driveways Yards or Sidewalks-& Drivers	40	2.3%

Residual Market Top 10 Classification Codes by Premium Volume Second Quarter Data Reported through June 30, 2018

The top 10 governing class codes by premium volume written on total policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Premium	% of Premium
1	5645	Carpentry Construction of Residential Dwellings Not Exceeding Three Stories in Height	\$735,276	14.1%
2	5551	Roofing-All Kinds & Drivers	\$381,078	7.3%
3	7228	Trucking-Local Hauling Only-& Drivers	\$372,431	7.2%
4	2719	Logging or Tree Removal - Mechanized Harvesting Exclusively	\$261,023	5.0%
5	8018	Store: Wholesale NOC	\$121,214	2.3%
6	0037	Farm: Field Crops & Drivers	\$120,246	2.3%
7	5474	Painting NOC & Shop Operations Drivers	\$116,133	2.2%
8	6217	Excavation & Drivers	\$114,869	2.2%
9	7229	Trucking-Long Distance Hauling-& Drivers	\$111,571	2.1%
10	5535	Sheet Metal Work-Installation & Drivers	\$102,570	2.0%



Glossary of Terms

Applications Bound—The applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).

Earned Premium or Premiums Earned—That portion of written premiums applicable to the expired portion of the time for which the insurance was in effect. When used as an accounting term, “premiums earned” describes the premiums written during a period, plus the unearned premiums at the beginning of the period, less the unearned premiums at the end of the period.

In Force (Policies/Premium)—All policies and associated estimated premium that are current as of a given date.

Incurred But Not Reported (IBNR)—Pertaining to losses where the events that will result in a loss, and eventually a claim, have occurred, but have not yet been reported to the insurance company. The term may also include “bulk” reserves for estimated future development of case reserves.

Loss Ratio—The ratio of total incurred losses to total earned premiums in a given period, expressed as a percentage. The formula for loss ratio is $(\text{loss} + \text{loss adjustment expense}) / \text{earned premium}$.

Premium Bound—The total estimated annual premium on bound applications.

Underwriting Gain/ (Loss)—The financial statement presentation that reflects the excess of earned premium over incurred losses.

VCAP® Service—Voluntary Coverage Assistance Program is a supplemental program to NCCI’s Workers Compensation Insurance Plan. As part of NCCI’s strategic vision of maintaining and depopulating the residual market, NCCI’s **VCAP® Service** redirects coverage opportunities for employers to voluntary market insurers, which generally provide coverage at a lower cost. **VCAP® Service** provides an additional source for producers and employers to secure voluntary workers compensation coverage prior to entering the residual market for coverage.



EXHIBIT "C"

State of the Line

AIS
2018
30th Anniversary

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PROPERTY/CASUALTY (P/C) RESULTS

P/C Industry Net Written Premium Growth

Private Carriers

Line of Business	2016 (\$B)	2017p (\$B)	% Change From 2016
Personal Auto	207.4	221.9	7.0
Homeowners	80.6	82.2	2.0
Other Liability (Incl. Product Liability)	47.9	50.1	4.6
Workers Compensation	40.1	39.8	-0.7
Commercial Multiple Peril	33.8	34.1	0.9
Fire & Allied Lines (Incl. EQ)	26.3	26.4	0.4
Commercial Auto	28.3	30.6	8.1
All Other Lines	63.7	67.0	5.2
Total P/C Industry	528.0	552.1	4.6

p Preliminary

Source: NAIC's Annual Statement data for individual carriers prior to consolidation of affiliated carriers

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P/C Industry Net Combined Ratio

Private Carriers

Line of Business	2016 (%)	2017p (%)	Difference From 2016
Personal Auto	106	103	-3
Homeowners	93	107	14
Other Liability (Incl. Product Liability)	111	101	-10
Workers Compensation	94	89	-5
Commercial Multiple Peril	102	108	6
Fire & Allied Lines (Incl. EQ)	90	124	34
Commercial Auto	111	111	0
All Other Lines	87	98	11
Total P/C Industry	101	104	3

p Preliminary

Source: NAIC's Annual Statement data for individual carriers prior to consolidation of affiliated carriers

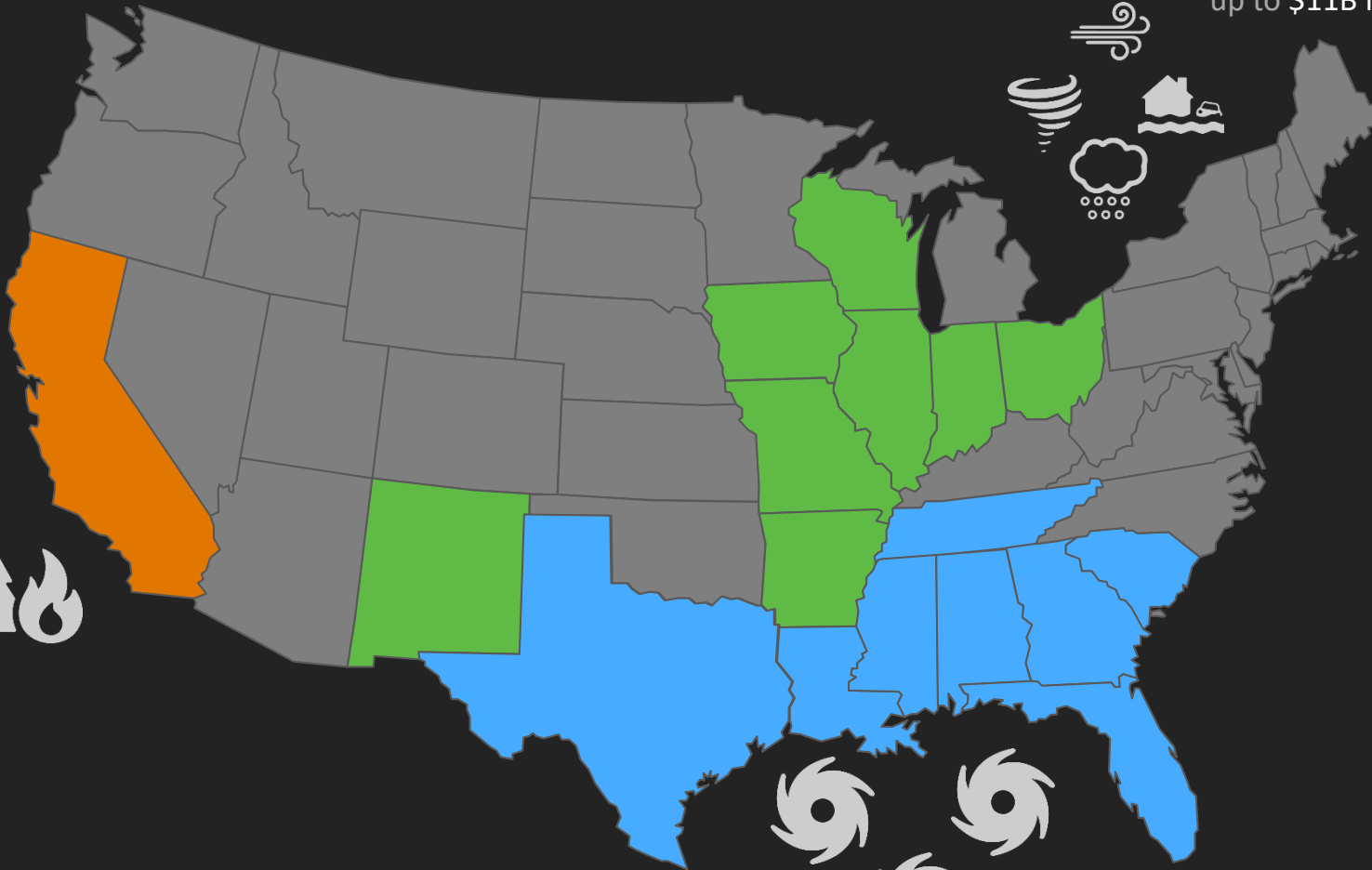
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Impact of Catastrophes on P/C Losses

Several tornado, hail, wind, and flood events produced up to \$11B in insured losses



Wildfires destroyed structures, homes, and buildings, resulting in over \$11B in losses



Major hurricanes had a combined impact on insured losses of \$56B

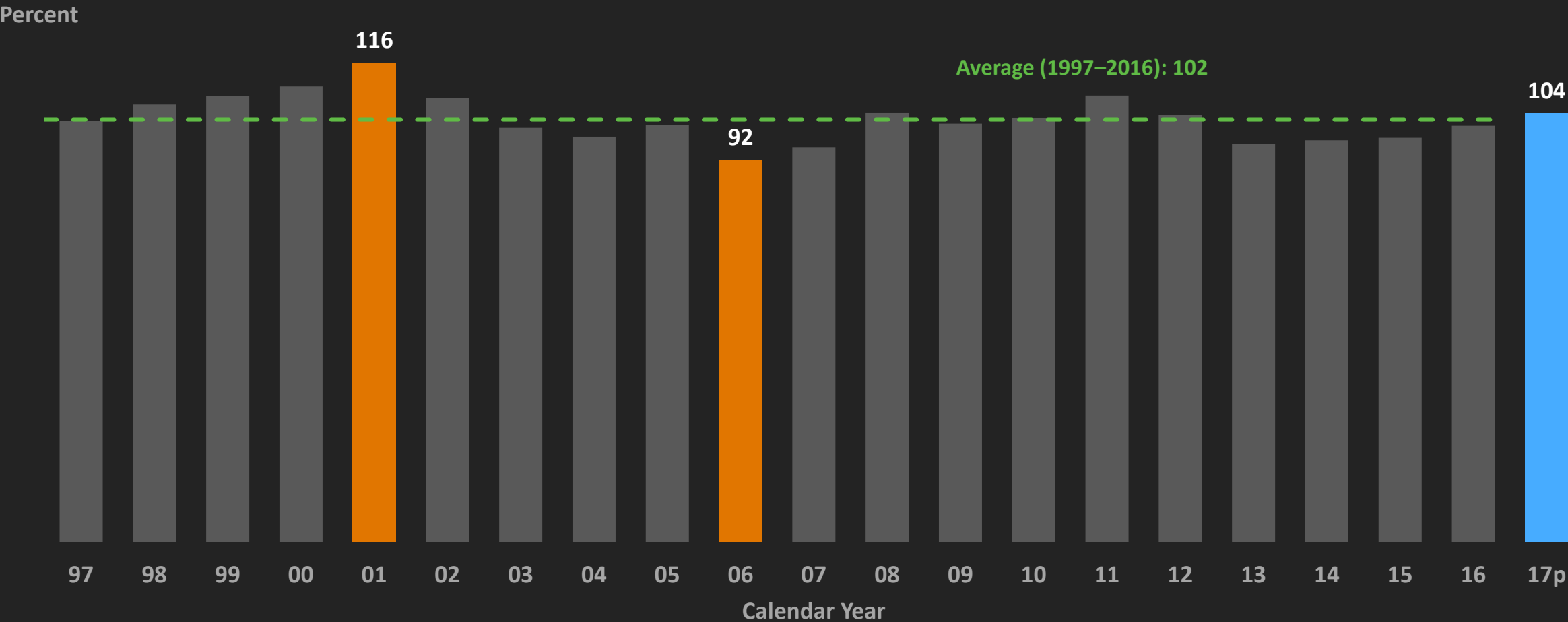
Source: Willis Re Summary of Natural Cat Events 2017

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P/C Industry Net Combined Ratio

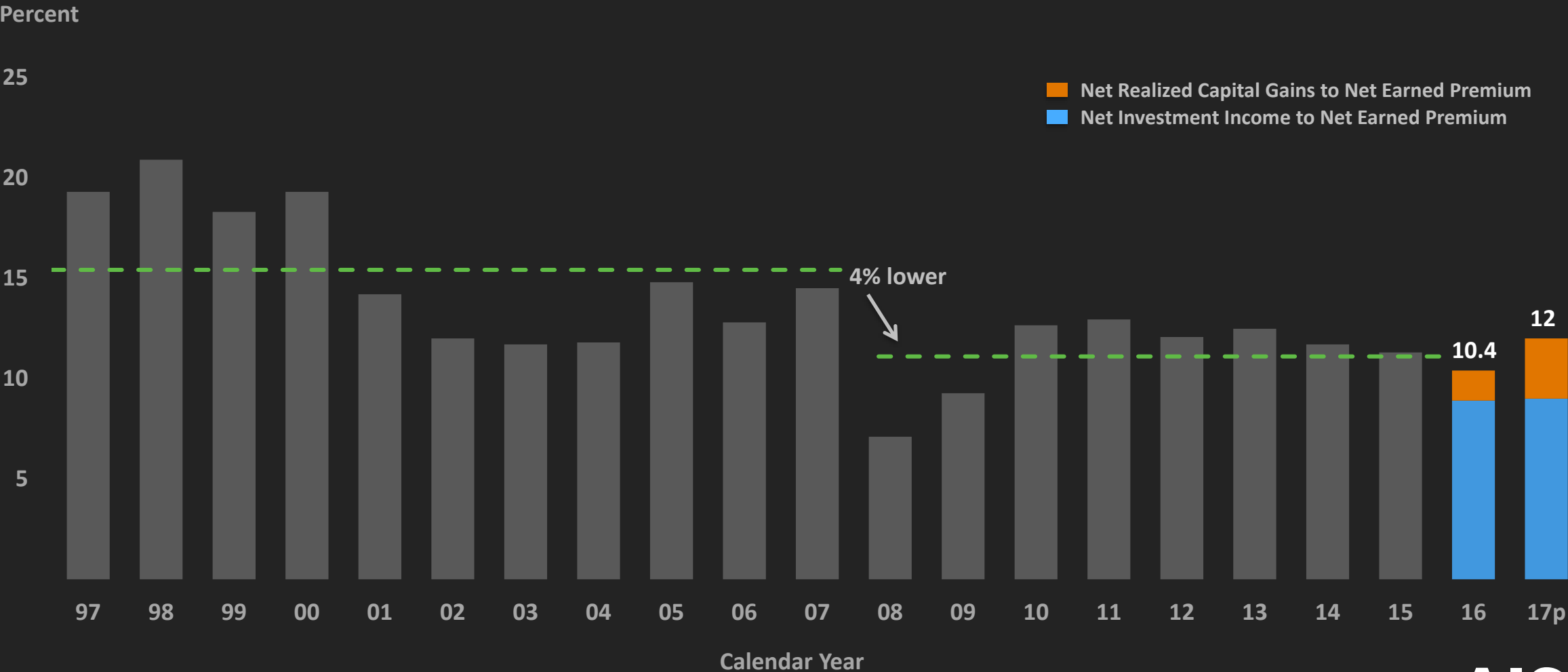
Private Carriers



p Preliminary
Sources: 1997–2007 and 2012–2017p NAIC’s Annual Statement data; 2008–2011 ISO

P/C Industry Investment Gain Ratio

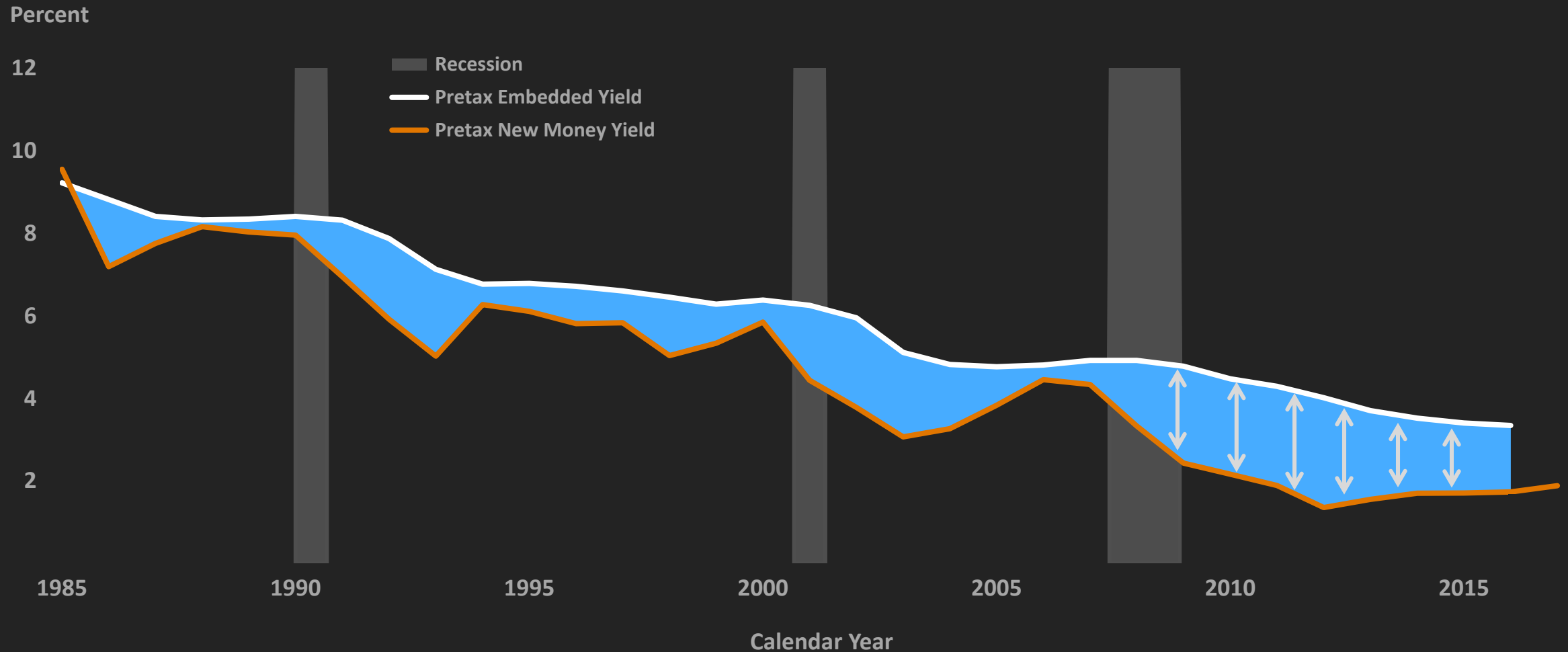
Private Carriers



p Preliminary
Sources: 1997–2007 and 2013–2017p NAIC’s Annual Statement data; 2008–2012 ISO

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P/C Industry Bond Embedded Yield and New Money Yield



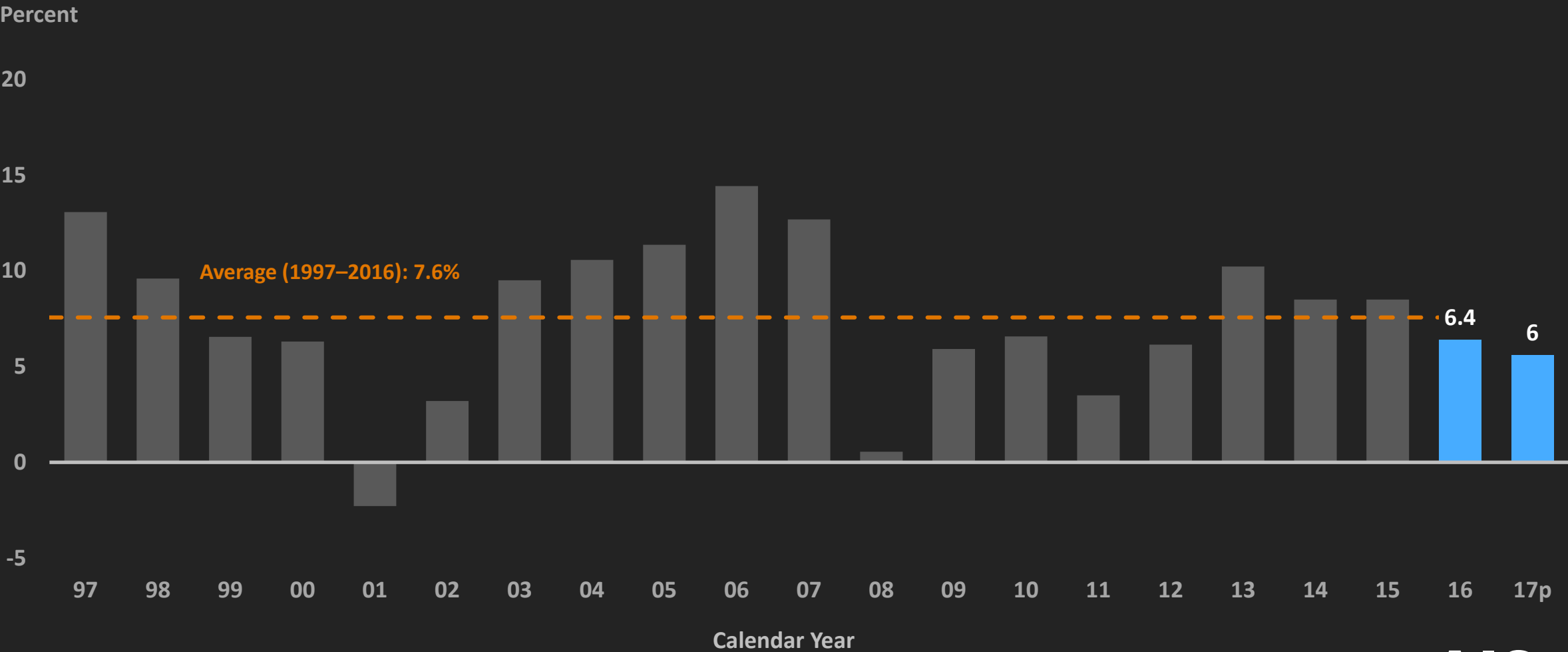
Sources: NCCI, *A.M. Best's Aggregates & Averages*, Federal Reserve Bank, Value Line, TreasuryDirect.gov, Barron's, and Bloomberg
Embedded Yield is the reported investment income for bond instruments divided by the asset value of those instruments
New Money Yield is the pretax yield on bonds

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P/C Industry After-Tax Return on Surplus

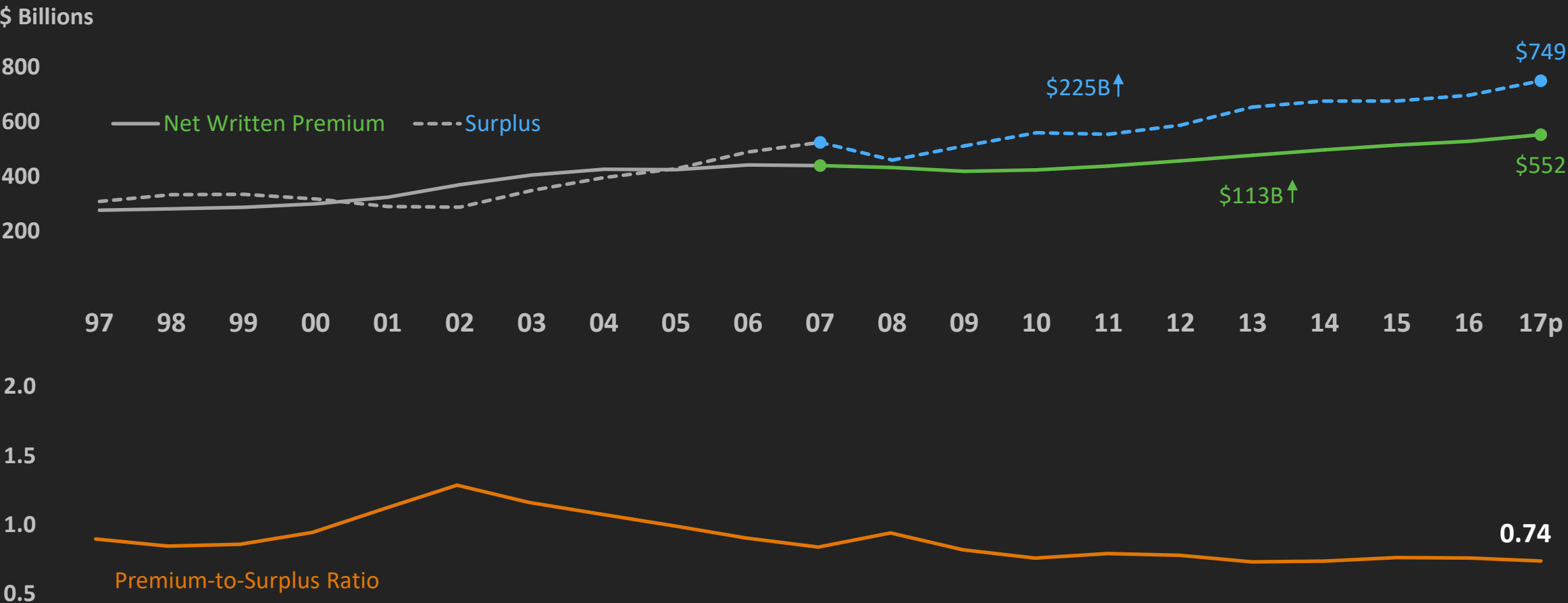
Private Carriers



p Preliminary
Sources: 1997–2007 and 2013–2017p NAIC’s Annual Statement data; 2008–2012 ISO
After-tax return on average surplus, excluding unrealized capital gains

P/C Industry Premium-to-Surplus Ratio

Private Carriers



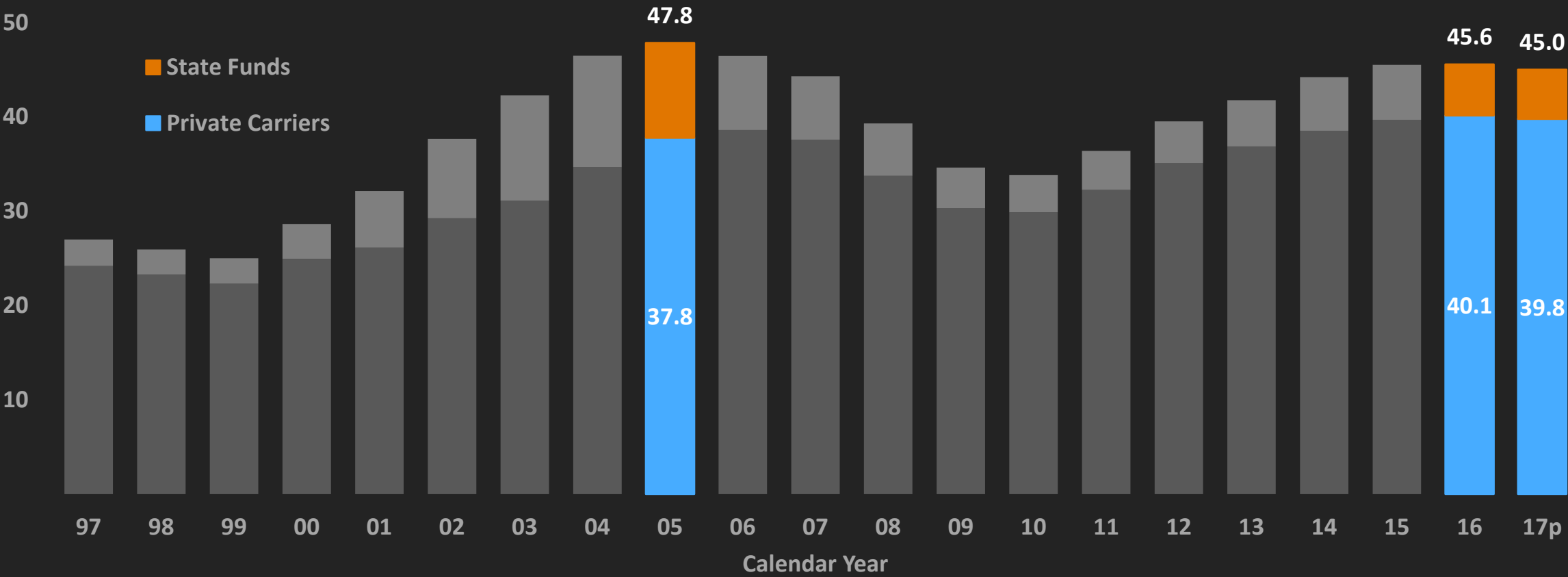
p Preliminary
Sources: 1997–2007 and 2013–2017p NAIC’s Annual Statement data; 2008–2012 ISO

WORKERS COMPENSATION (WC) PREMIUM

WC Net Written Premium

Private Carriers and State Funds

\$ Billions

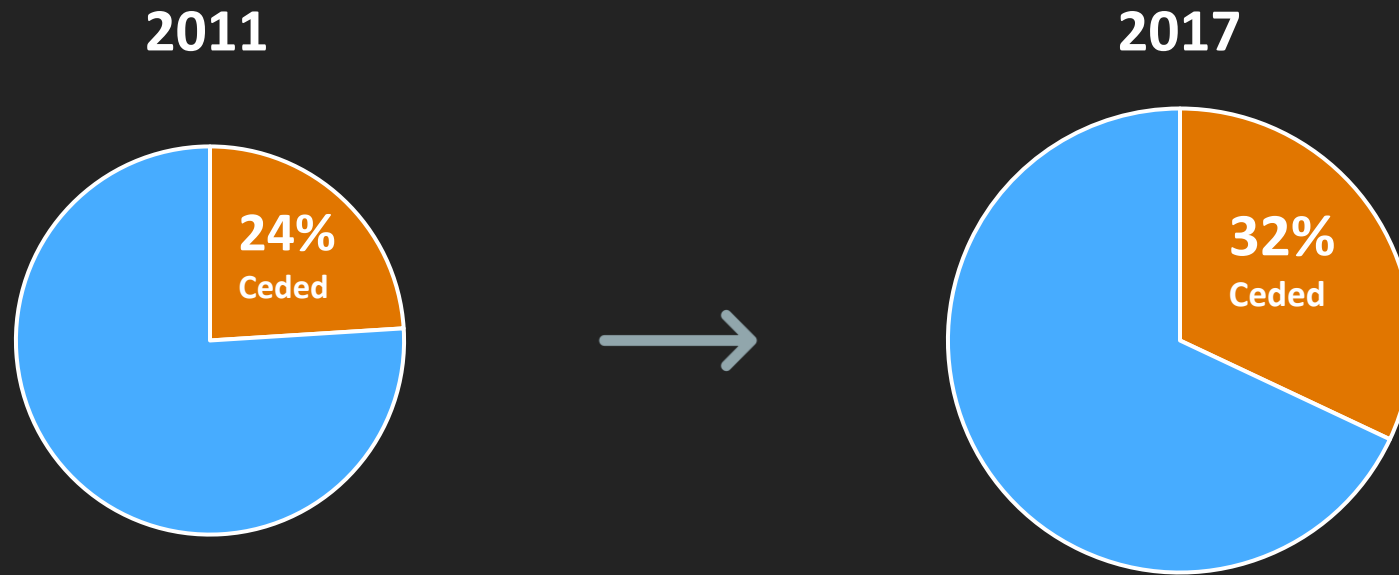


p Preliminary

Source: NAIC's Annual Statement data; includes state insurance fund data for the following states: AZ, CA, CO, HI, ID, KY, LA, MD, MO, MT, NM, OK, OR, RI, TX, and UT
Each calendar year total for state funds includes all funds operating as a state fund in that year

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Proportion of Total WC Premium Ceded



Ceded (+11% per year)

Direct and Assumed (+6% per year)

Average Annual Growth

2011 2012 2013 2014 2015 2016 2017

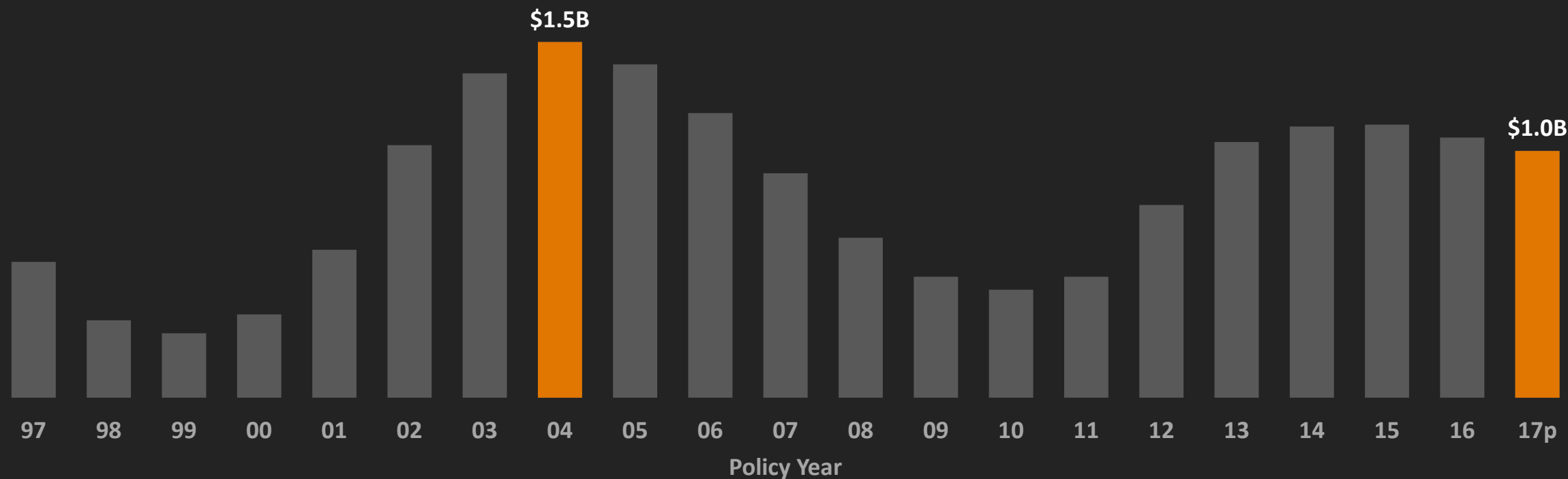
Source: NAIC's Annual Statement data

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WC Residual Market Premium

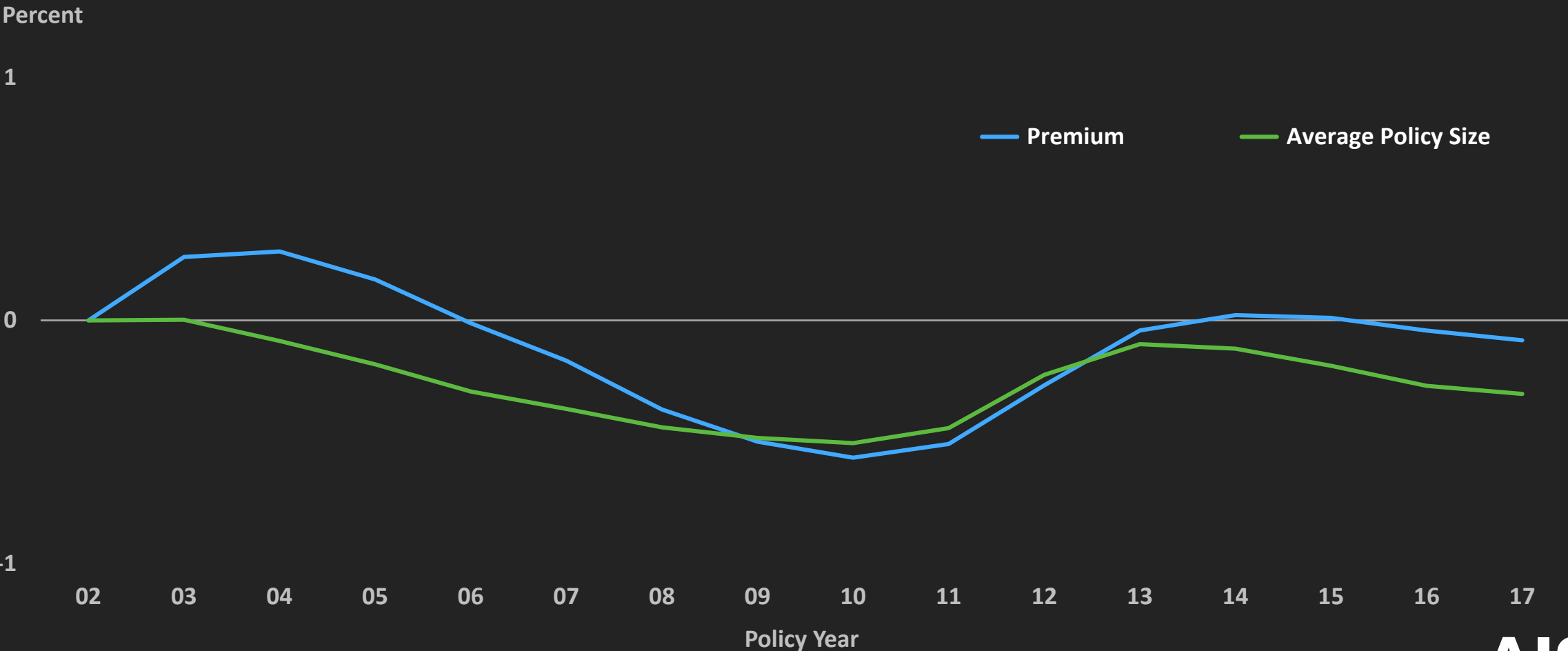
NCCI-Serviced WC Residual Market Pools



p Preliminary, incomplete policy year projected to ultimate
Includes Pool data for all NCCI-serviced WC Residual Market Pool states, valued as of 12/31/2017
Tennessee Reinsurance Mechanism premium is not included
Source: NCCI's *Residual Market Quarterly Results*

WC Residual Market—Changes in Premium vs. Average Policy Size

NCCI-Administered WC Residual Market Plan States



Total estimated annual premium
Includes Pool and direct assignment data for all NCCI-administered WC Residual Market Plan states

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WC Residual Market Premium by Size of Risk

NCCI-Administered WC Residual Market Plan States

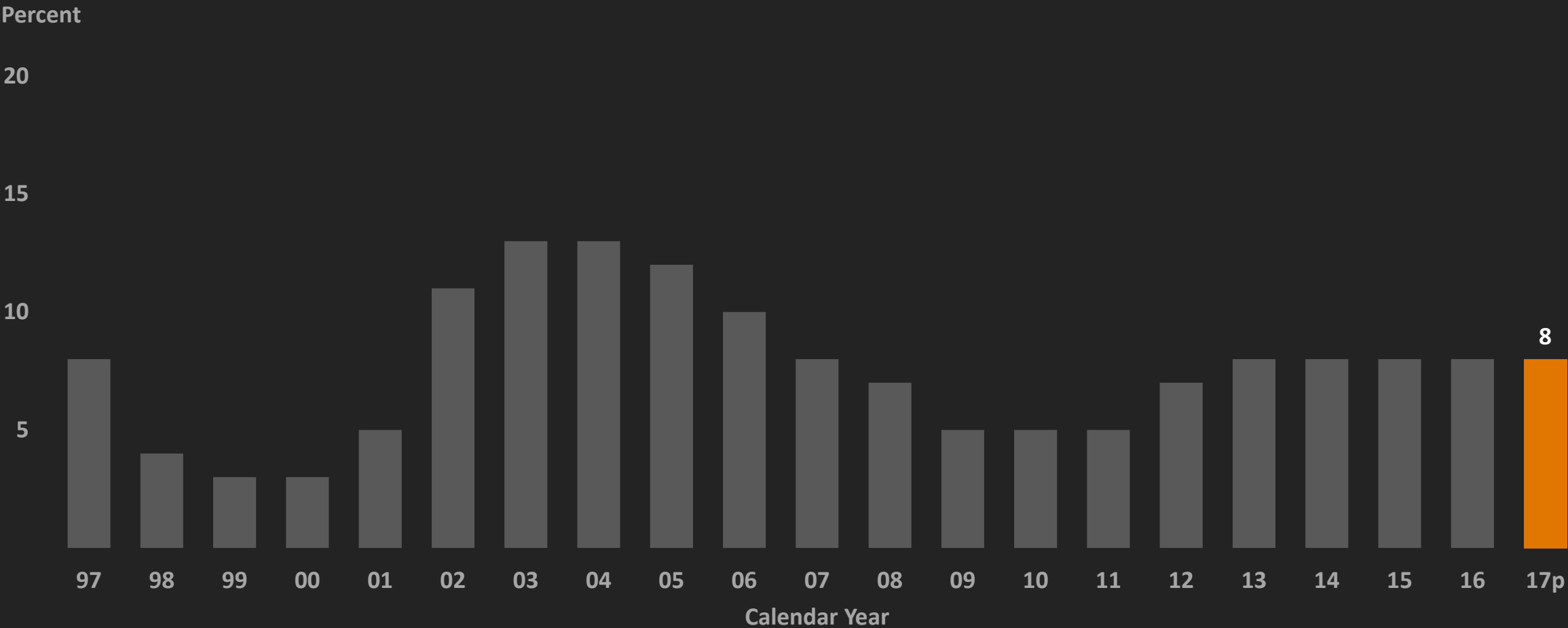
				Premium (\$ Millions)			
Size of Risk				Q1 2017	Q1 2018	% Change From 2017	
\$	0	–	2,499	36.1	39.3		9
\$	2,500	–	4,999	20.0	19.4	-3	
\$	5,000	–	9,999	26.5	25.3	-5	
\$	10,000	–	49,999	68.5	61.4	-10	
\$	50,000	–	99,999	21.2	19.5	-8	
\$	100,000	and	Over	26.6	20.2	-24	
Total				198.9	185.1	-7	

Total estimated annual premium
Includes Pool and direct assignment data for all NCCI-administered WC Residual Market Plan states

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WC Residual Market Share

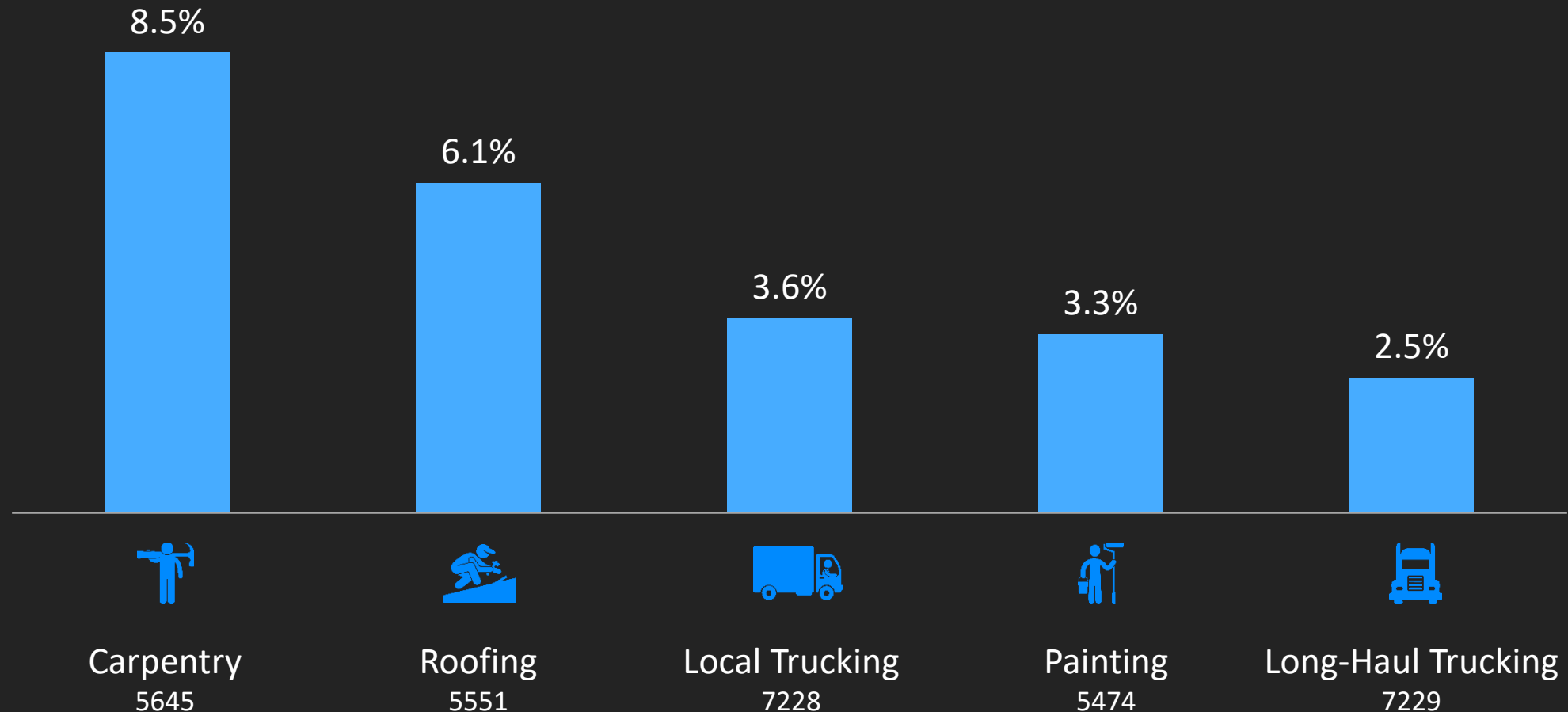
NCCI-Serviced WC Residual Market Pools



p Preliminary
Includes Pool and direct assignment data for all NCCI-serviced WC Residual Market Pool states
Source: NCCI's *Residual Market Management Summary*

Top Five Residual Market Class Codes

Based on Residual Market Plan Total Written Premium for 2017



Top classification codes excluding the Standard Exception classifications

Results are based on manual premium volume for both intrastate policies and the state-specific portion of interstate policies

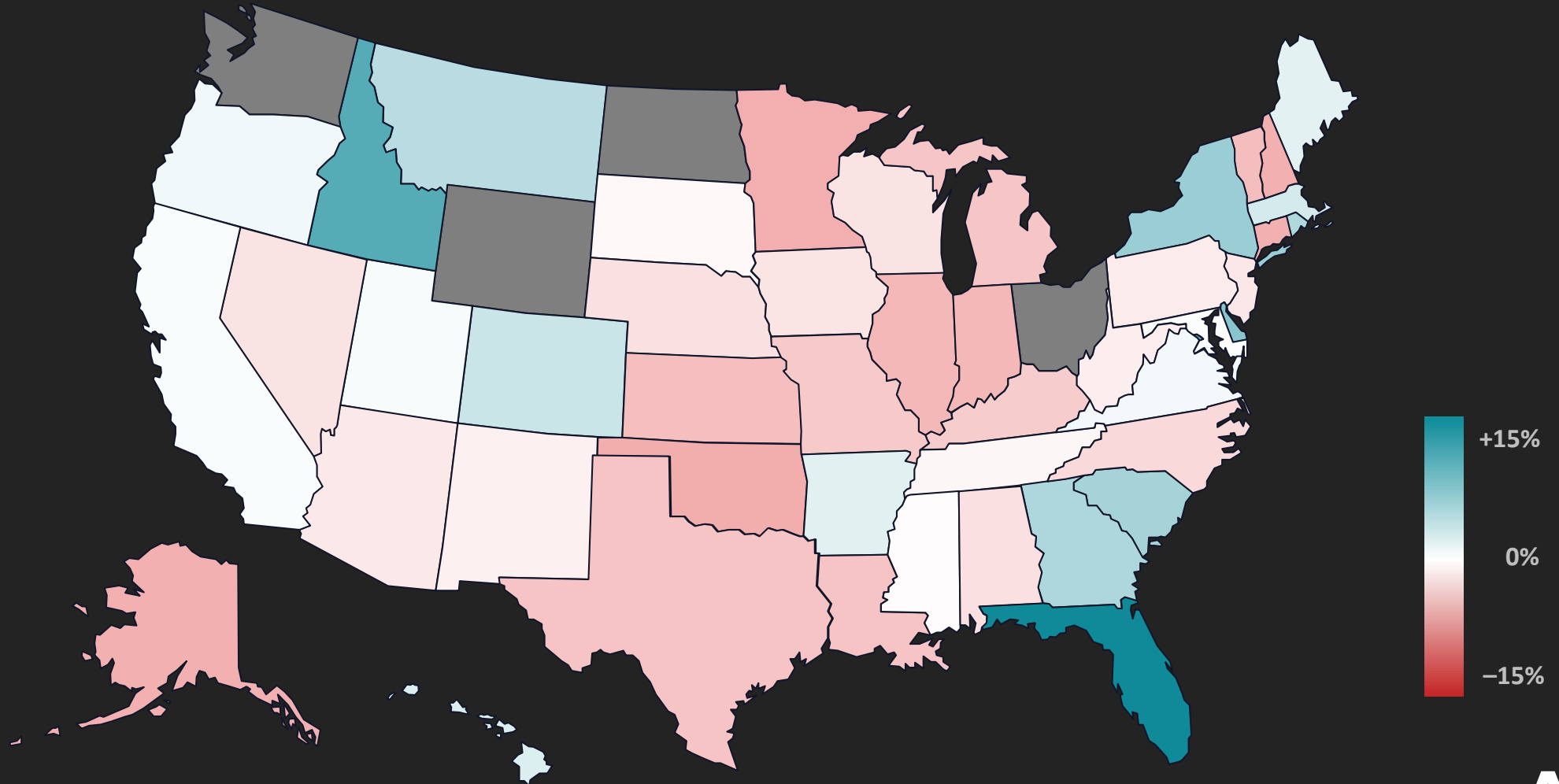
Source: NCCI's Policy data

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WC Direct Written Premium Change—2017

Private Carriers



Source: 2016 and 2017 NAIC's Annual Statement Statutory Page 14

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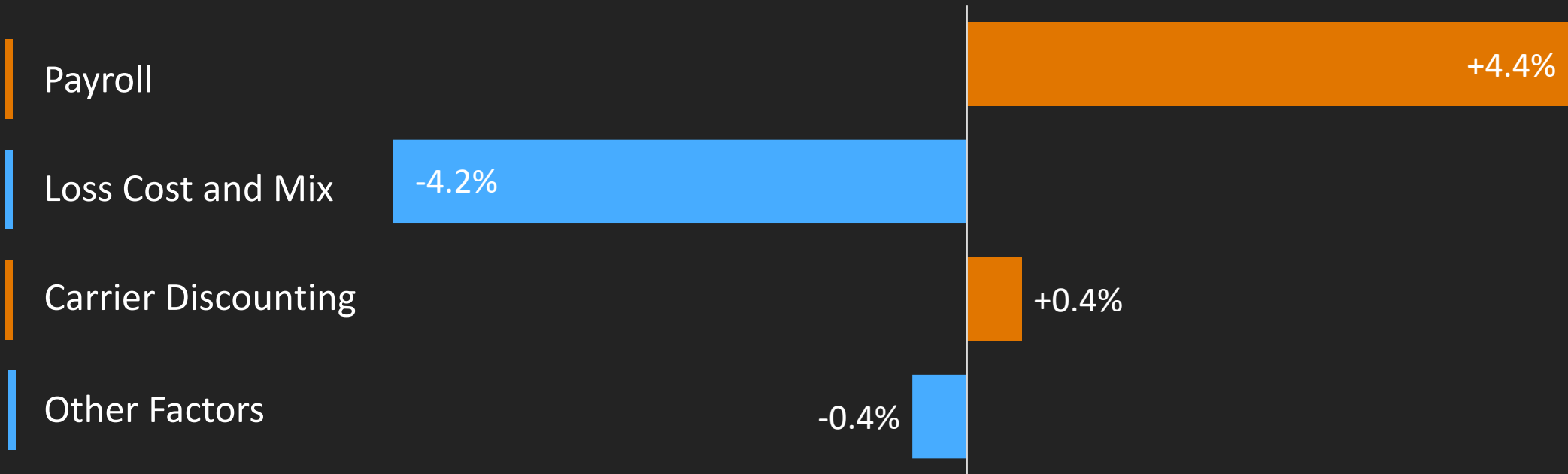
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WC Direct Written Premium Change by Component

Private Carriers—NCCI States

Change in Direct Written Premium: 0.0%

2017 vs. 2016

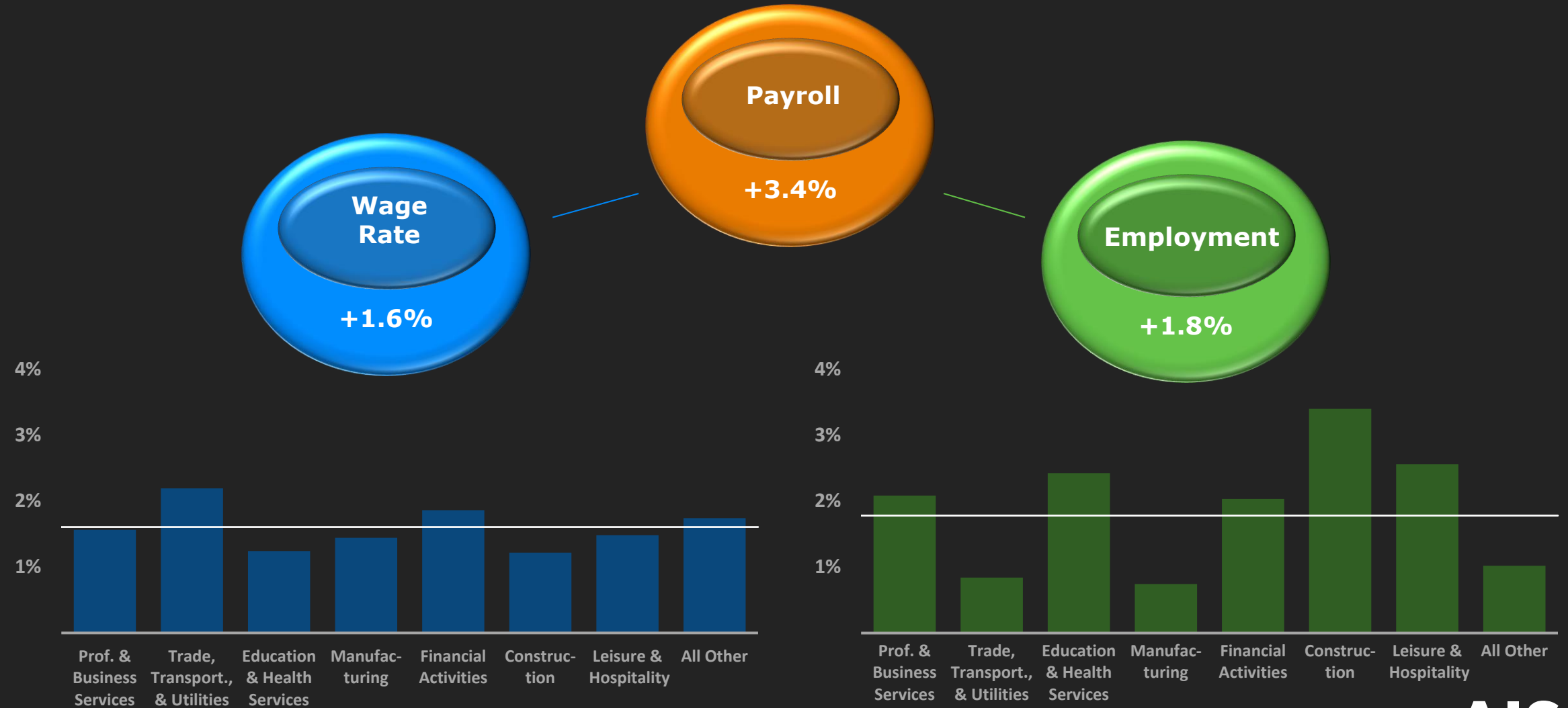


Sources: Direct Written Premium Change: NAIC's Annual Statement Statutory Page 14 for all states where NCCI provides ratemaking services
Components: NCCI's Policy data

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Increases in Payroll Continue to Drive Changes in Premium

Forecast Change 2016–2017

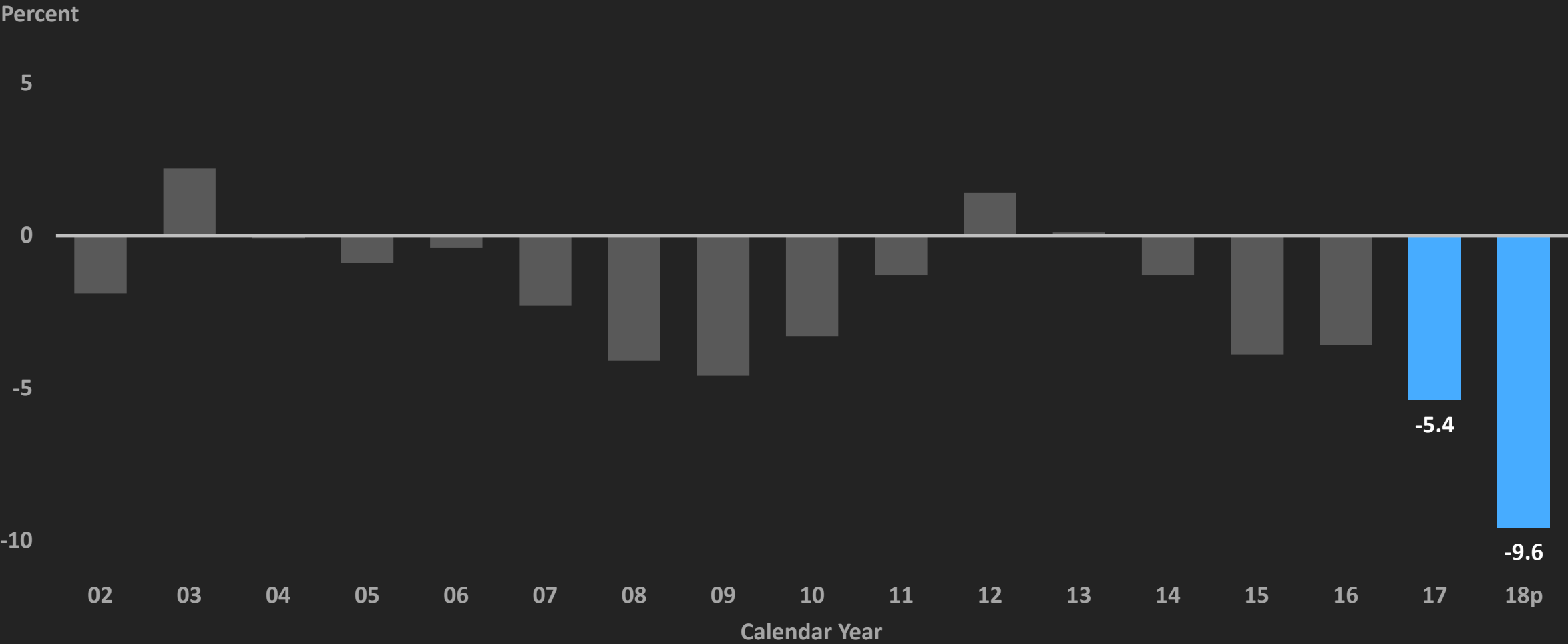


Sources: Moody's Analytics and NCCI

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WC Approved Changes in Bureau Premium Level

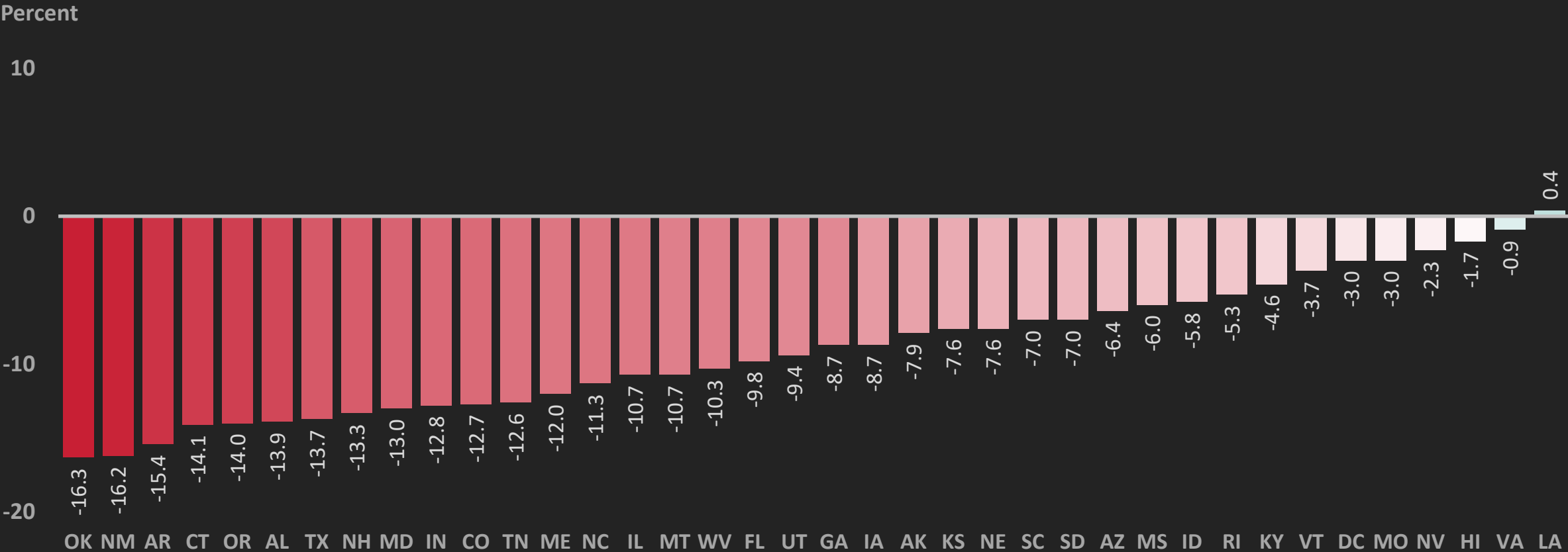
Weighted by Effective Date—NCCI States



p Preliminary
Source: NAIC's Annual Statement Statutory Page 14
Values reflect changes in average premium levels between years, based on approved changes in advisory rates, loss costs, assigned risk rates, and rating values, as of 5/10/2018
IN and NC are filed in cooperation with state rating bureaus

Most Recent Changes in Bureau Premium Level

Voluntary Market, Excludes Law-Only Filings

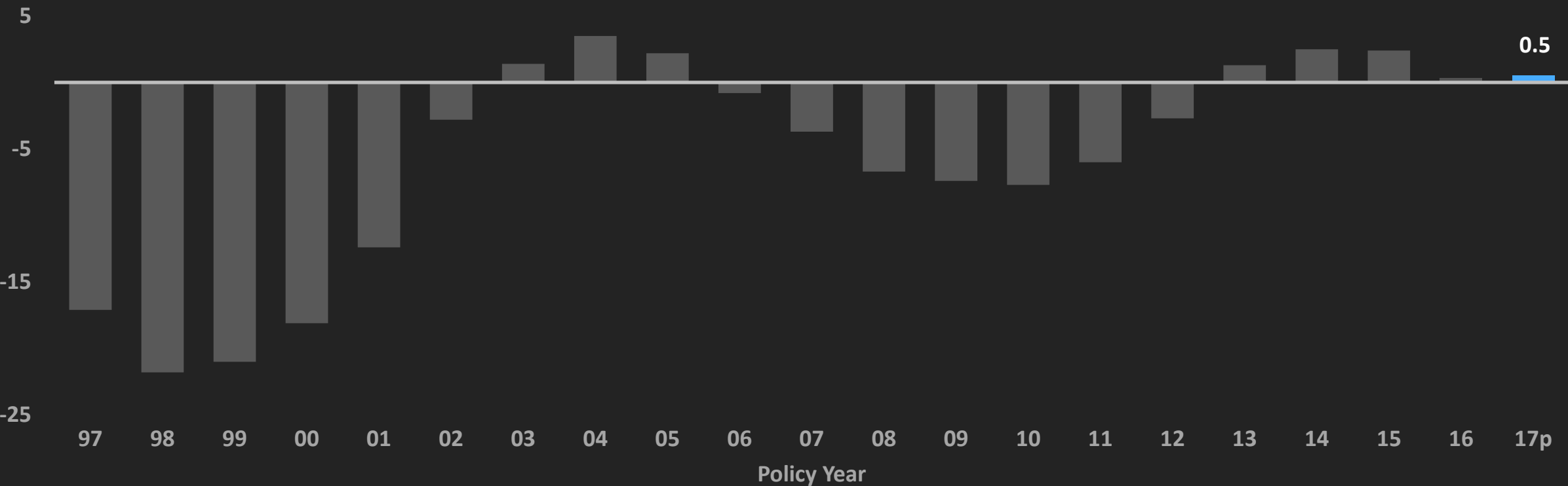


Premium level changes in advisory rates, loss costs, and rating values, as of 5/10/2018, as filed by the applicable rating organization, relative to those previously approved
IN and NC are filed in cooperation with state rating bureaus

WC Impact of Discounting on Premium

Private Carriers—NCCI States

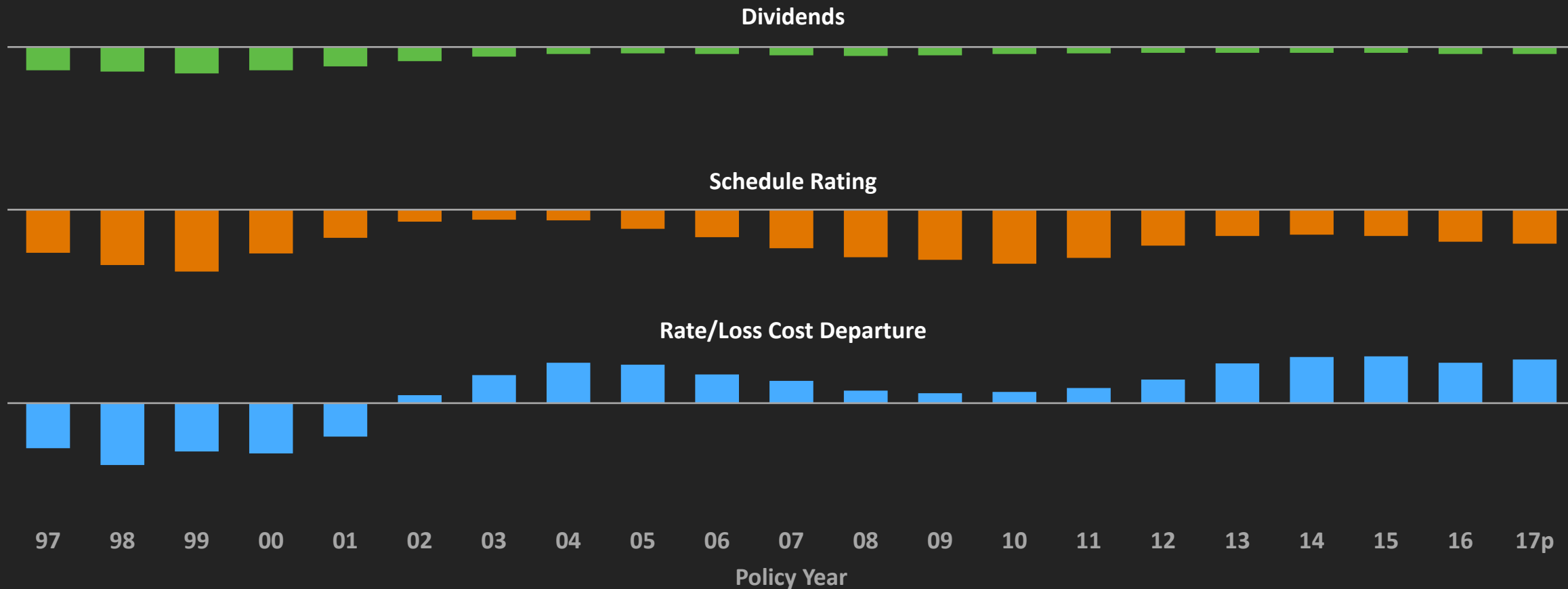
Percent



p Preliminary
Sources: NAIC's Annual Statement Statutory Page 14 and NCCI's Financial Call data
Rate/loss cost departure reflects carrier departure from NCCI rate level, which excludes a profit and contingency provision and expense constant
Based on data for all states where NCCI provides ratemaking services, excluding TX

WC Impact of Discounting on Premium by Component

Private Carriers—NCCI States



p Preliminary

Sources: NAIC's Annual Statement Statutory Page 14 and NCCI's Financial Call data

Dividend ratios are based on calendar year statistics

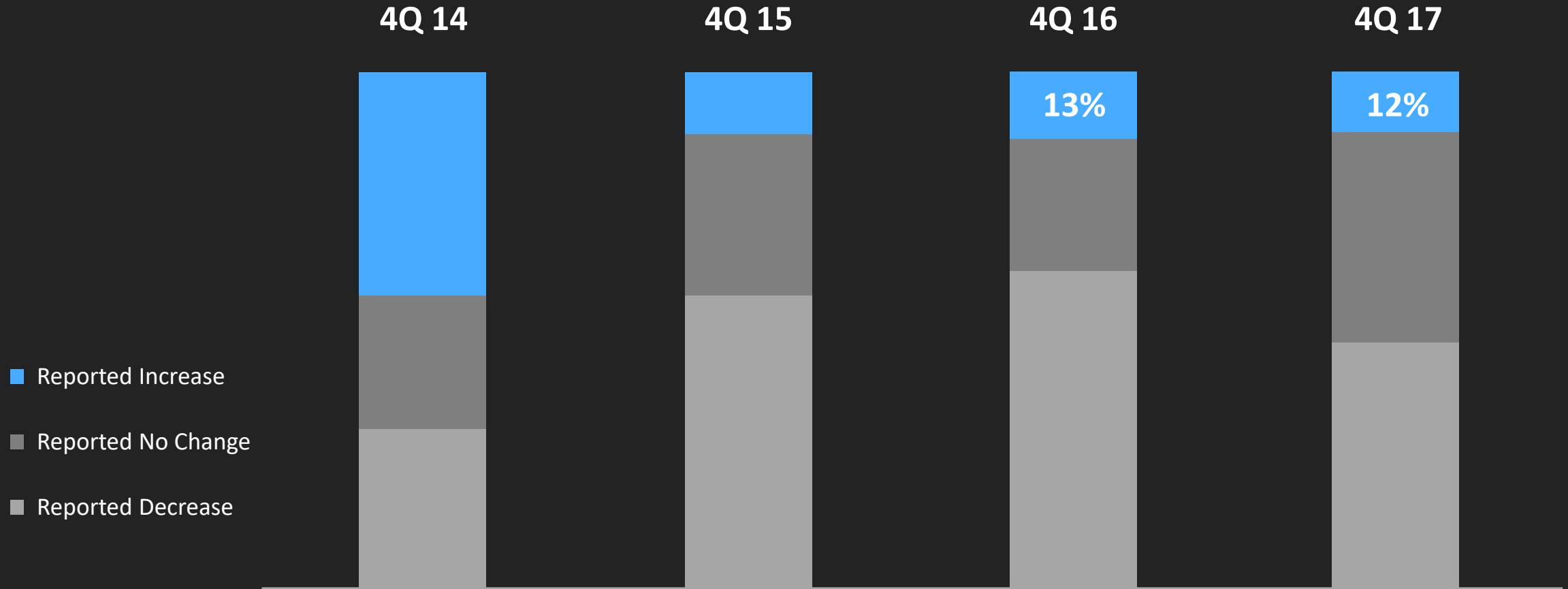
Rate/loss cost departure reflects carrier departure from NCCI rate level, which excludes a profit and contingency provision and expense constant

Based on data for all states where NCCI provides ratemaking services, excluding TX

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WC Pricing—Market Index Survey

Percentage of Respondents



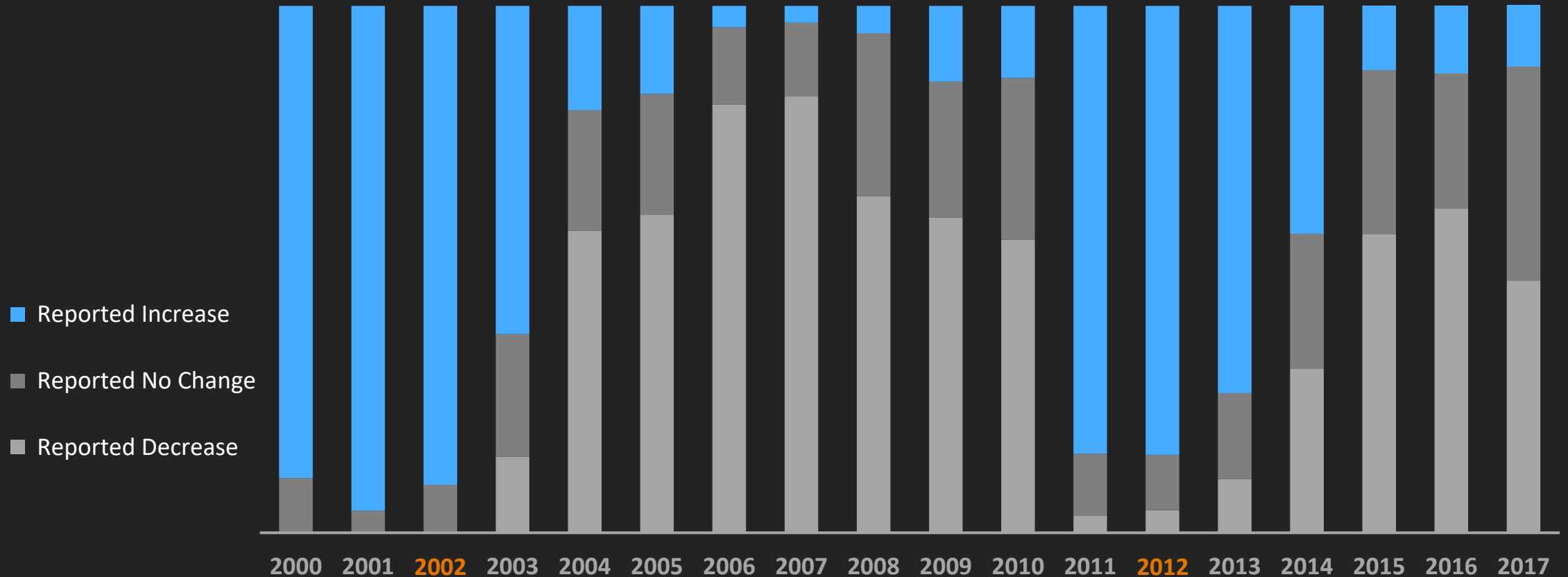
Sources: The Council of Insurance Agents & Brokers: Q4 P/C Market Index Surveys (2014–2017); results for “All Regions”

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WC Pricing—Market Index Survey

Percentage of Respondents, Based on 4Q Results



Sources: The Council of Insurance Agents & Brokers: Q4 P/C Market Index Surveys (2000–2017); results for “All Regions”

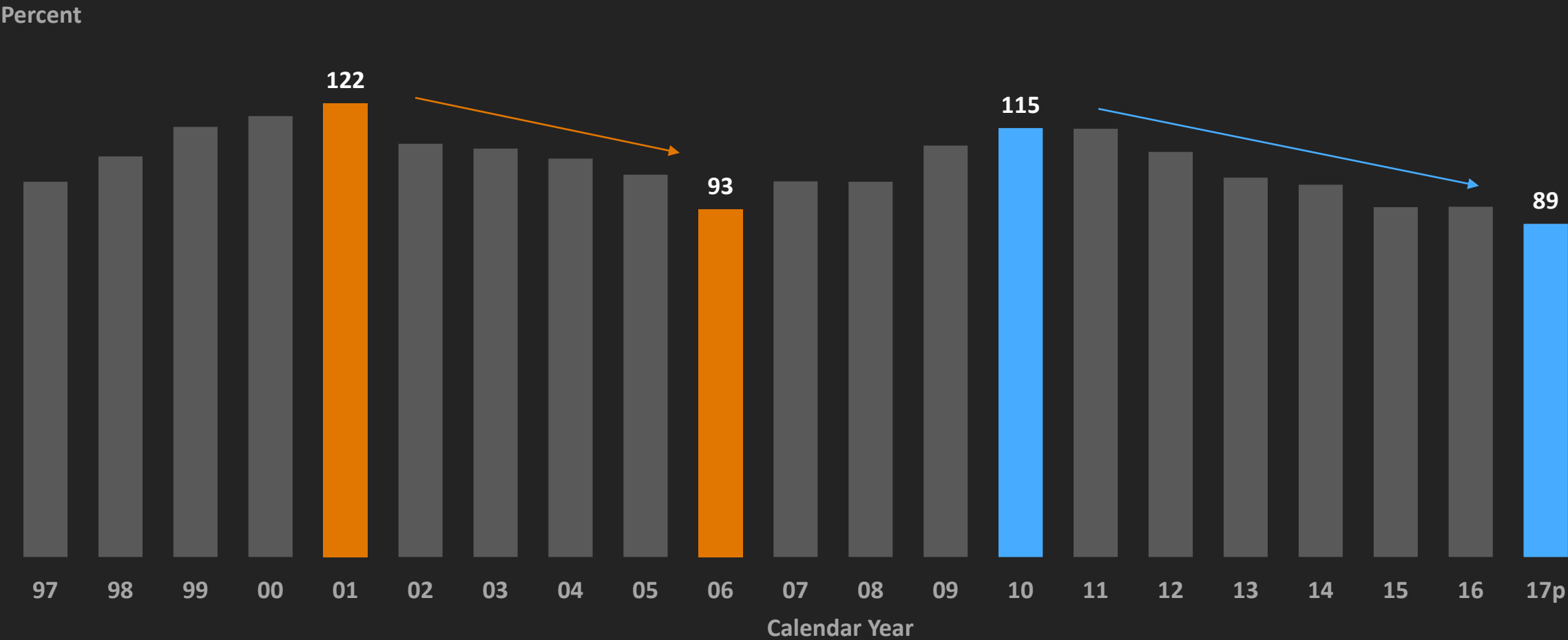
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WORKERS COMPENSATION RESULTS

WC Combined Ratio—Underwriting Gain Achieved

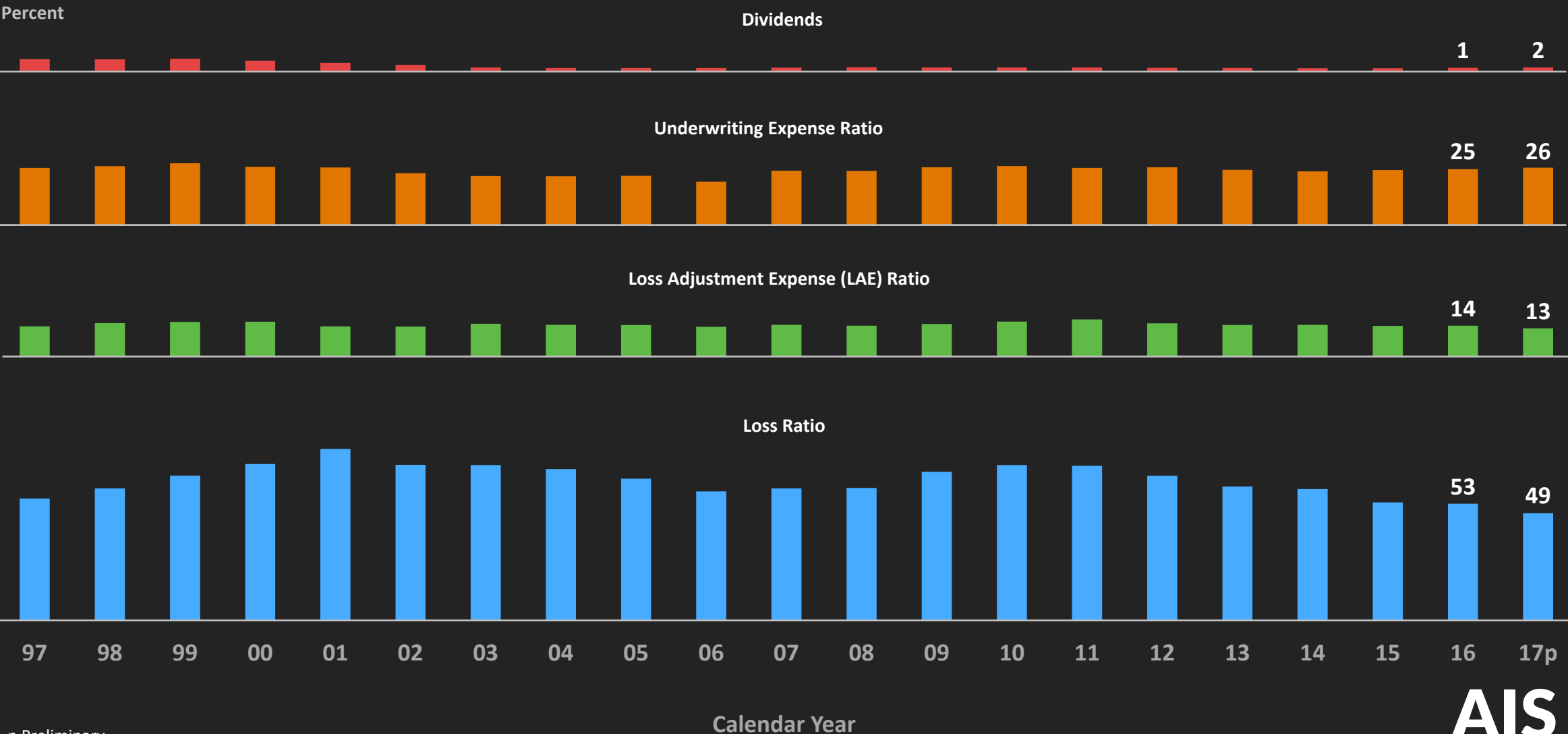
Private Carriers



p Preliminary
Source: NAIC's Annual Statement data
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WC Combined Ratio by Component

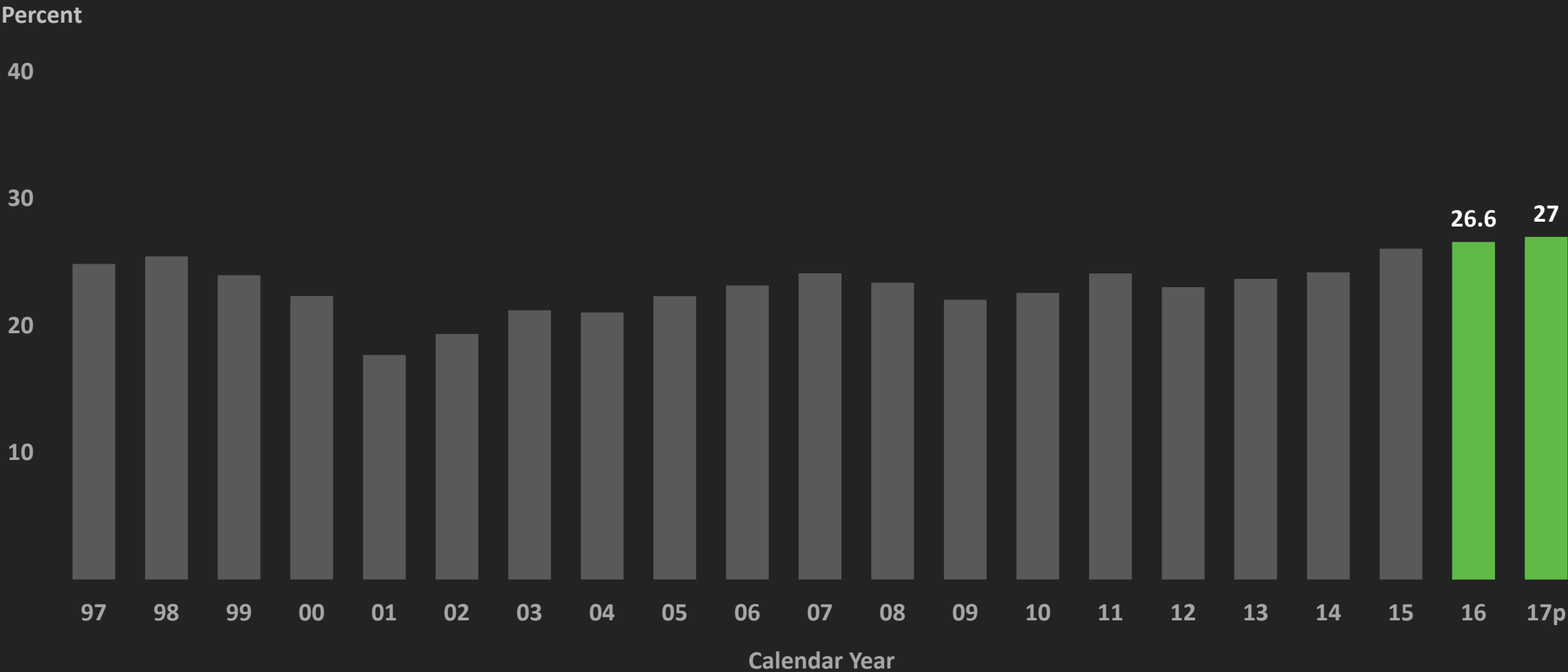
Private Carriers



p Preliminary
Source: NAIC's Annual Statement data
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WC LAE-to-Loss Ratio—Net Incurred LAE to Incurred Losses

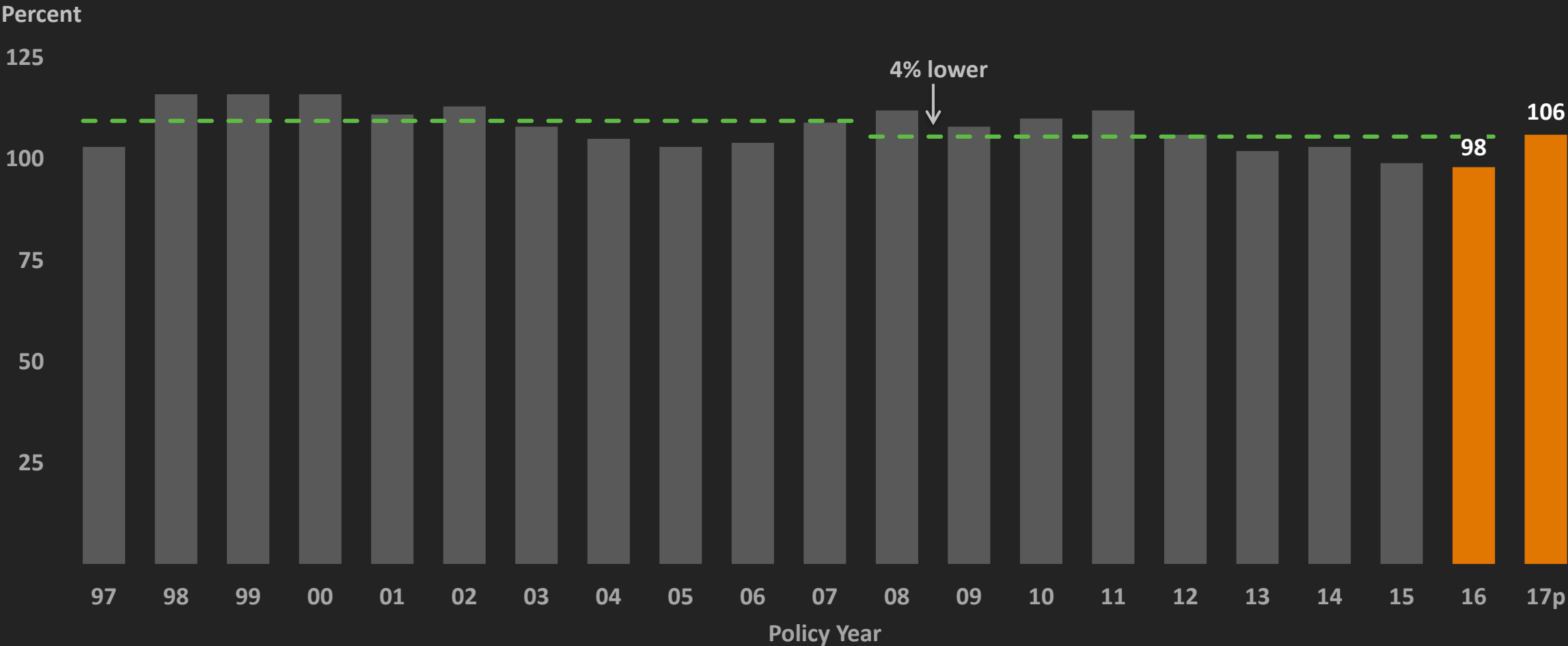
Private Carriers



p Preliminary
Source: NAIC's Annual Statement data
LAE includes Defense and Cost Containment Expense plus Adjusting and Other Expense
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WC Residual Market Combined Ratio

NCCI-Serviced WC Residual Market Pools

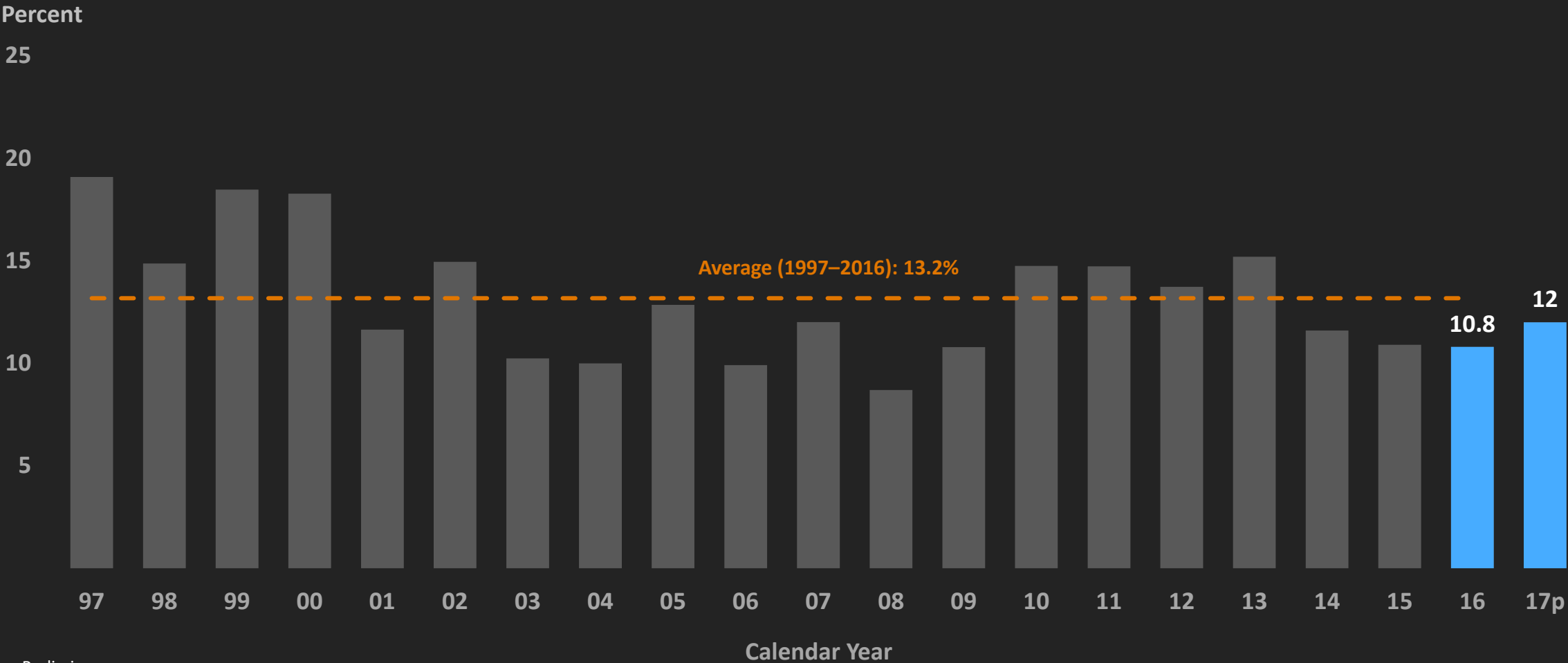


p Preliminary, incomplete policy year projected to ultimate
Includes Pool data and Plan expenses for pool members for all NCCI-serviced WC Residual Market Pool states, valued as of 12/31/2017
Tennessee Reinsurance Mechanism experience is not included in the combined ratios
Source: NCCI's *Residual Market Quarterly Results*

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WC Investment Gain on Insurance Transactions

Ratio to Net Earned Premium, Private Carriers



p Preliminary

Source: NAIC's Annual Statement data

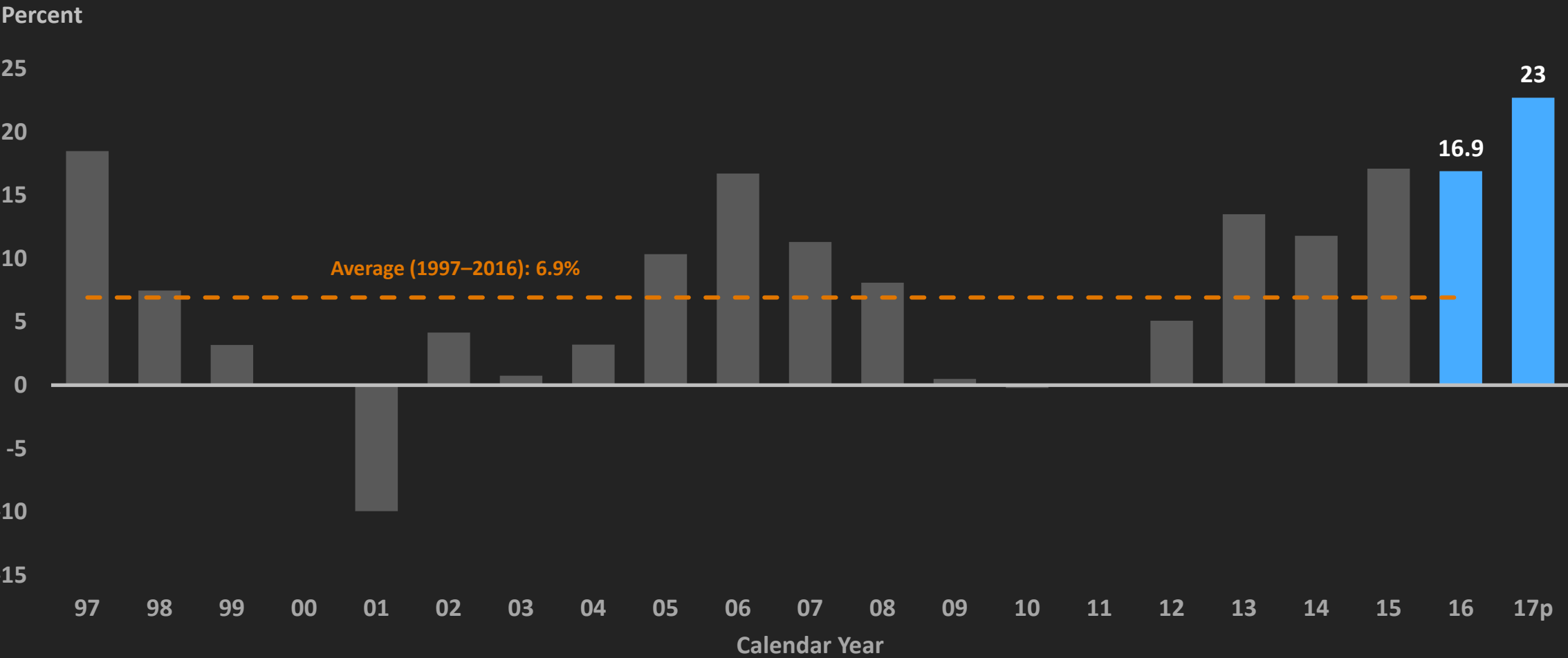
Investment Gain on Insurance Transactions includes Other Income

2013 is adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring; unadjusted value is 19.4

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WC Pretax Operating Gain

Private Carriers



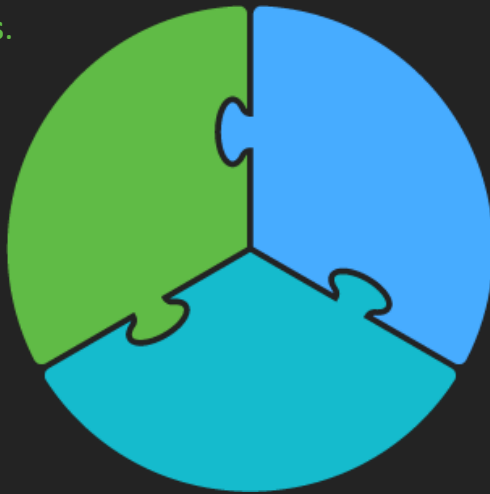
p Preliminary
Source: NAIC's Annual Statement data
Operating Gain equals 1.00 minus (Combined Ratio less Investment Gain on Insurance Transactions and Other Income)
2013 is adjusted to exclude a material realized gain resulting from a single company transaction that involved corporate restructuring; unadjusted value is 17.7

Social Security Disability Insurance and Workers Compensation

The idea of a “race to the bottom” is not borne out by the facts

Interaction of Coverages

Most states did **not reduce WC** benefits in the last **15 years**.

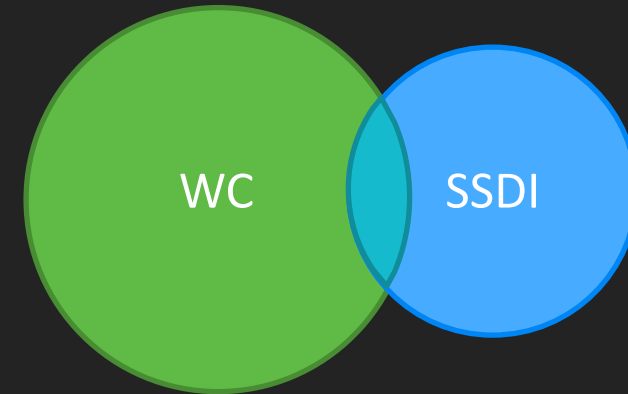


Observed **increases in SSDI** applications were impacted much more by the **Great Recession** than by WC benefit levels.

In states that did **lower WC** benefits, **SSDI applications** typically **decreased** following these reforms.

Dual Recipients

SSDI and WC work together to provide benefits to dual recipients. While workers receive dual benefits, **WC** generally shoulders the **majority** of the cost.

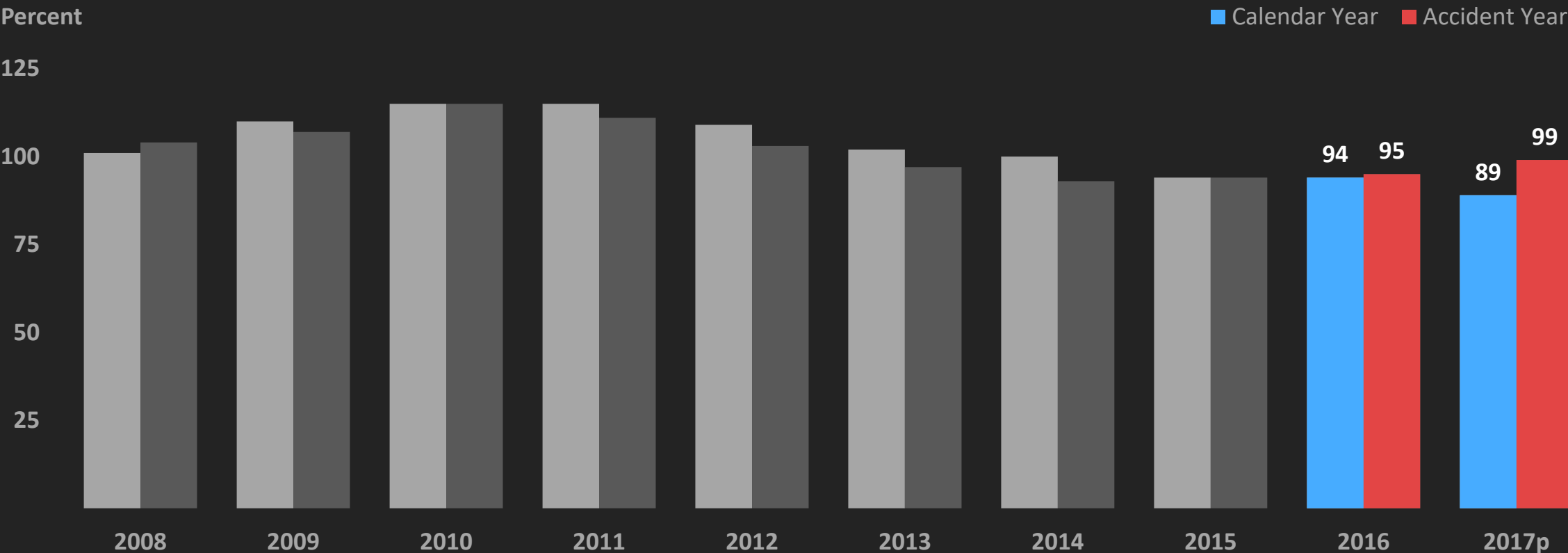


Cost shifting may serve to realign practices and/or to bring costs back in line with the original intent of a program, whether that program is WC, SSDI, or Medicare.

WORKERS COMPENSATION ACCIDENT YEAR RESULTS AND RESERVE ESTIMATES

WC Net Combined Ratios— Calendar Year vs. Accident Year As Reported

Private Carriers

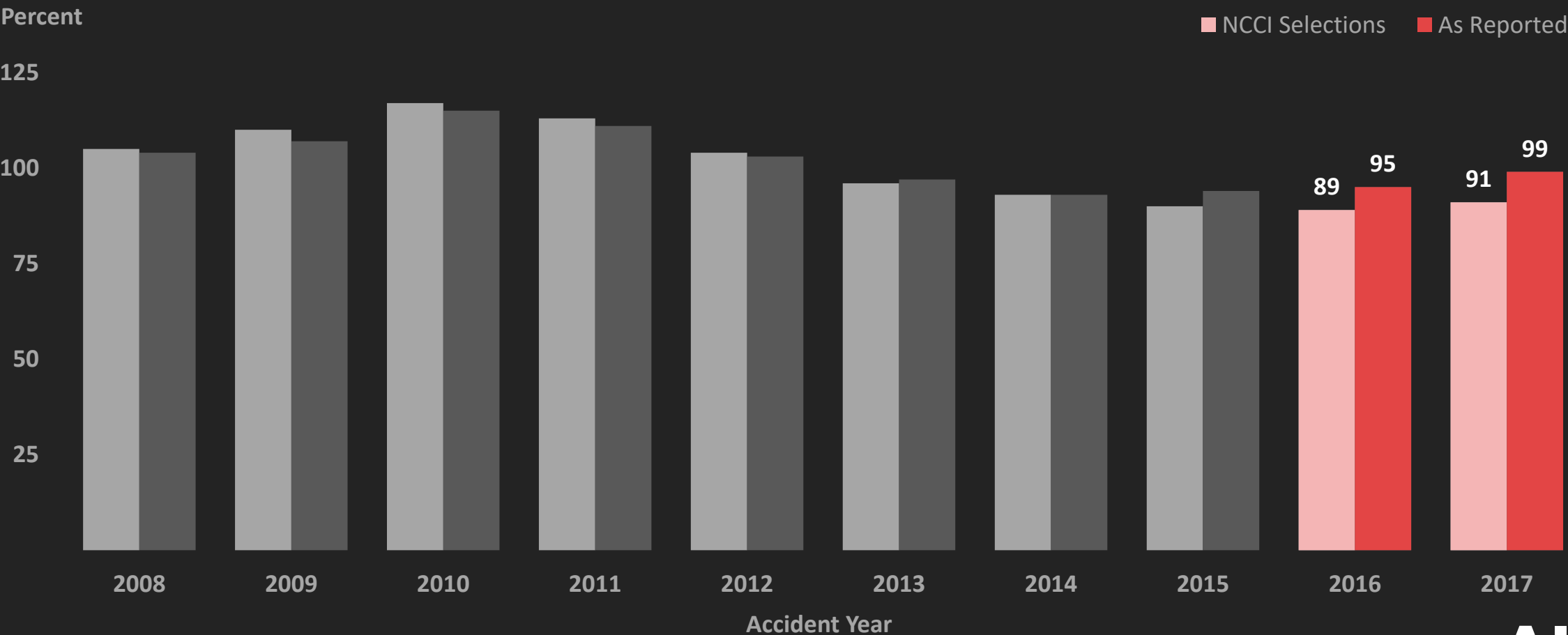


p Preliminary
Source: NAIC's Annual Statement data
Accident Year information is reported as of 12/31/2017
Includes dividends to policyholders

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WC Net Combined Ratios— NCCI's Accident Year Selections vs. As Reported

Private Carriers

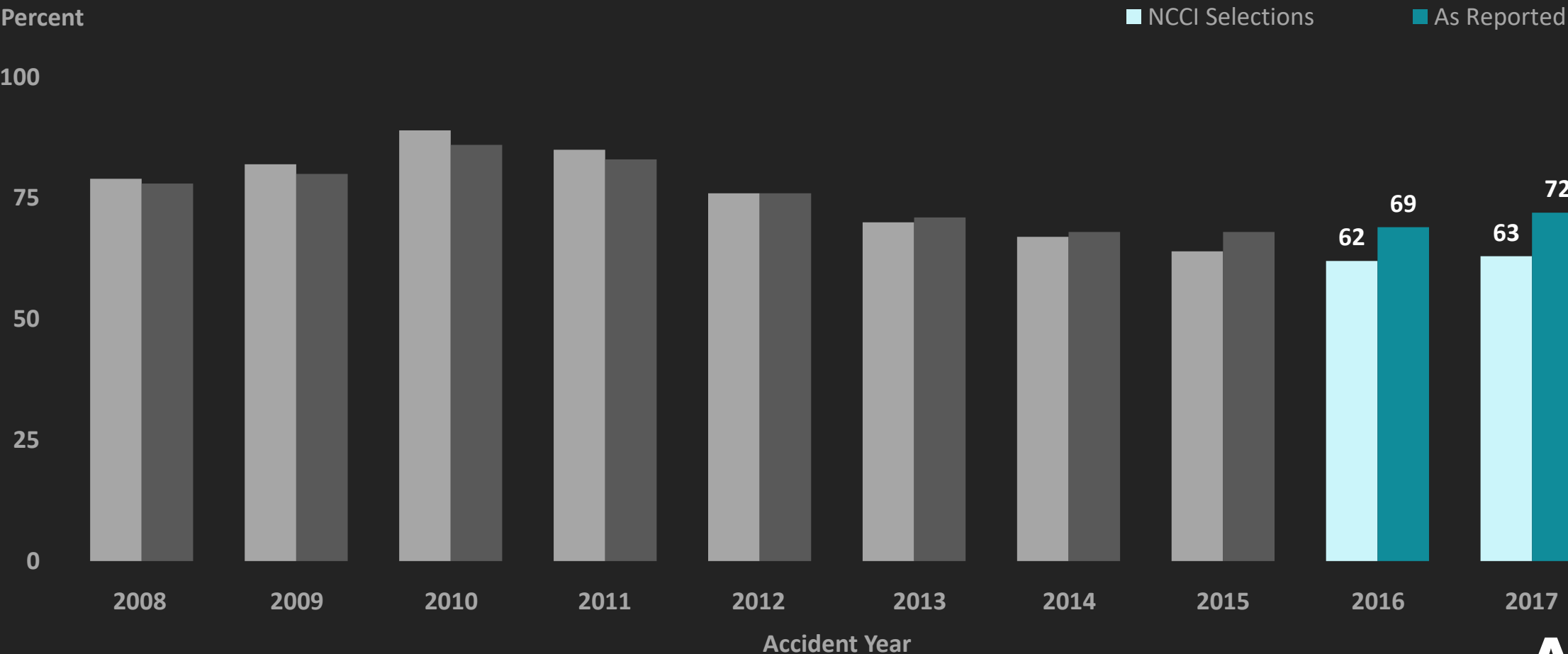


Sources: As Reported: NAIC's Annual Statement Schedule P—Part 1D data as of 12/31/2017
NCCI Selections: NCCI's analysis based on NAIC's Annual Statement data

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WC Net Loss and LAE Ratios— NCCI's Accident Year Selections vs. As Reported

Private Carriers

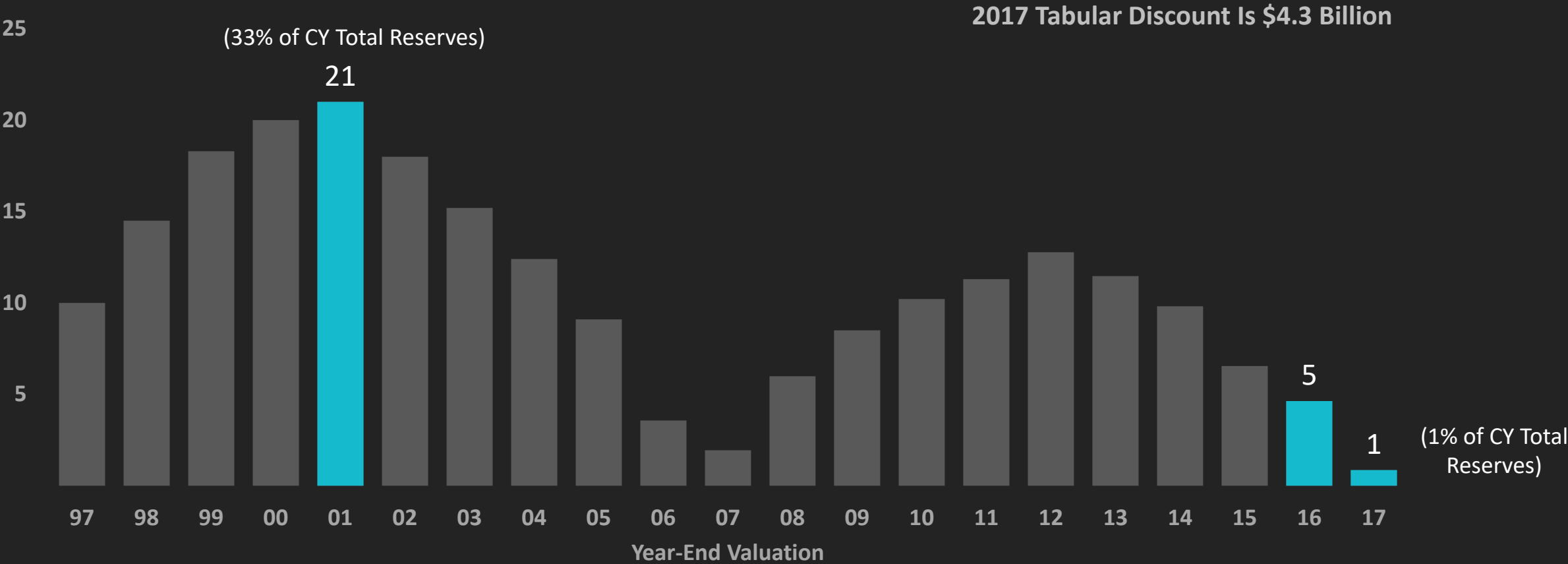


Sources: As Reported: NAIC's Annual Statement Schedule P—Part 1D data as of 12/31/2017
NCCI Selections: NCCI's analysis based on NAIC's Annual Statement data
As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts

WC Net Loss and LAE Reserve Deficiencies

Private Carriers

\$ Billions



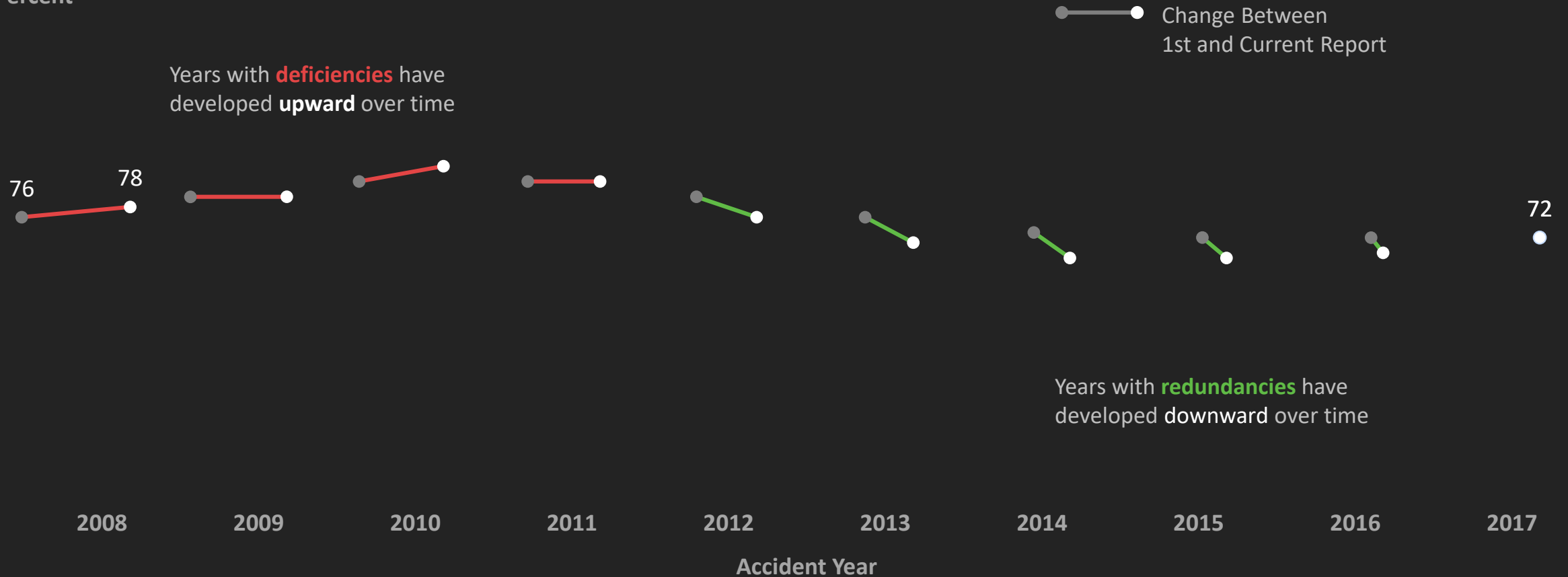
Source: NCCI's analysis based on NAIC's Annual Statement Schedule P—Part 1D data at year-end valuations
Considers all reserve discounts as deficiencies

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Emergence of Reported WC Net Loss and LAE Ratios

Private Carriers

Percent



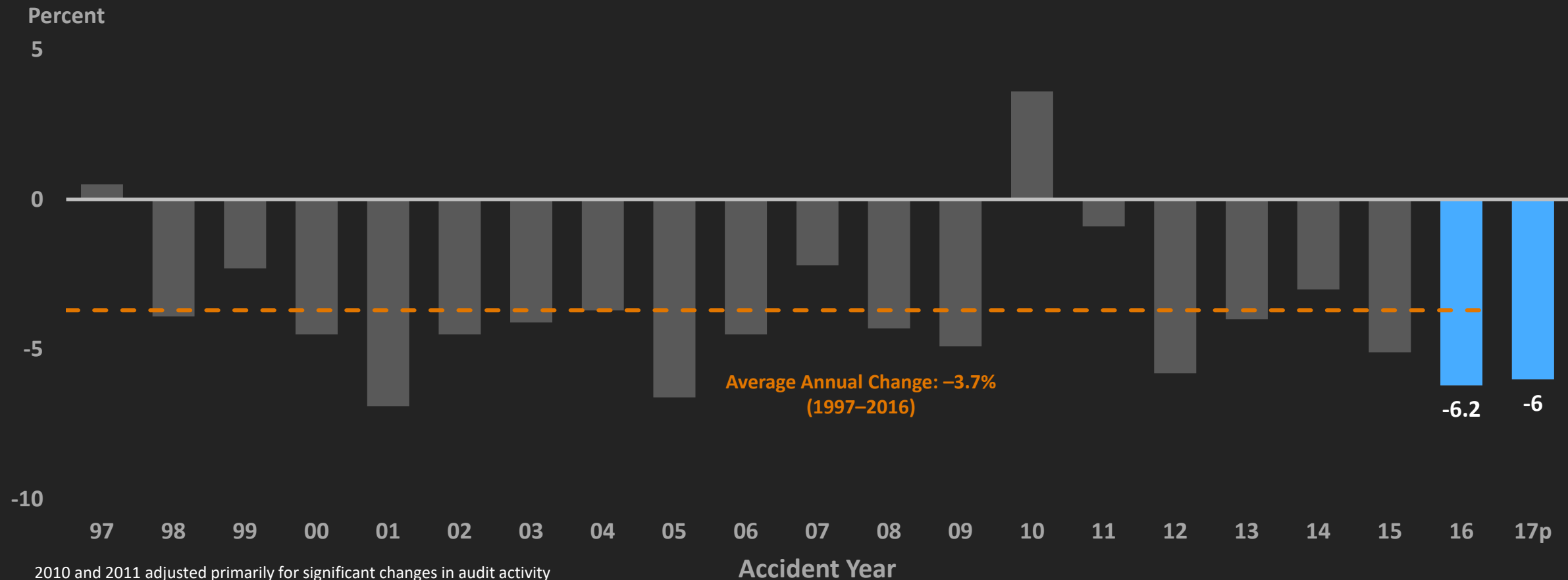
Source: NAIC's Annual Statement Schedule P—Part 1D data at year-end valuations
As Reported Loss and LAE ratios are net of tabular reserve discounts and gross of nontabular reserve discounts

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WORKERS COMPENSATION LOSS DRIVERS

WC Lost-Time Claim Frequency

Claims per \$1M Pure Premium, Private Carriers and State Funds—NCCI States



2010 and 2011 adjusted primarily for significant changes in audit activity

p Preliminary, based on data valued as of 12/31/2017

Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies; based on data through 12/31/2016

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

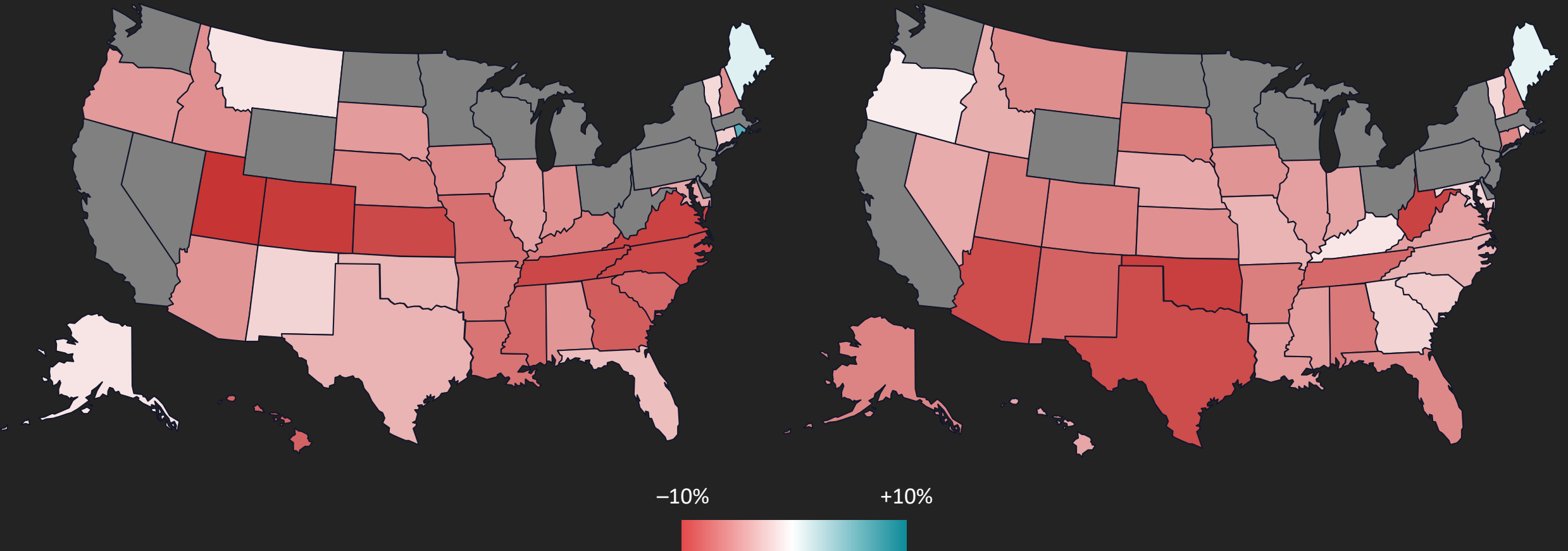
Includes all states where NCCI provides ratemaking services; WV is excluded through 2011

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WC Lost-Time Claim Frequency

Average Annual Change 1992–1996

Average Annual Change 2012–2016



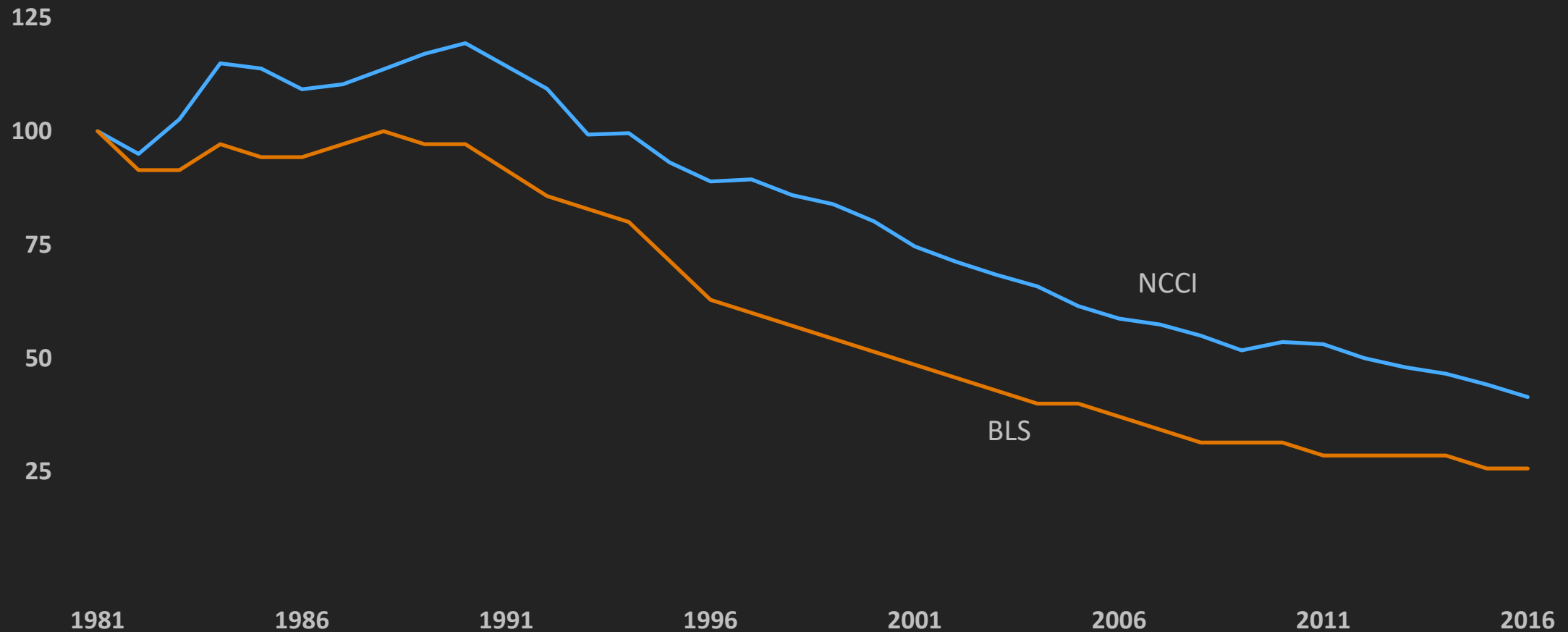
Source: NCCI's Financial Call data, developed to ultimate, premium adjusted to current wage and voluntary pure premium level, excludes high-deductible policies;
based on data through 12/31/2016
Values displayed reflect the methodology underlying the most recent rate/loss cost filing
Includes all states where NCCI provides ratemaking services

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NCCI and BLS Measures of Lost-Time Claim Frequency

Index 1981 = 100



Sources: US Bureau of Labor Statistics (BLS); incidence rate for total private industry; injury and illness cases involving days away from work
NCCI's Frequency and Severity Analyses; lost-time claims based on the states where NCCI provides ratemaking services, including state funds; excludes high-deductible policies

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Distribution of Lost-Time Claims by Size

Number of
Lost-Time Claims

1,000,000

750,000

500,000

250,000

Under 10K 10K–20K 20K–30K 30K–40K 40K–50K 50K–60K 60K–70K 70K–80K 80K–90K 90K–100K 100K–110K 110K–120K 120K–130K 130K–140K 140K–150K 150K–160K 160K–170K 170K–180K 180K–190K 190K–200K 200K–210K 210K–220K 220K–230K 230K–240K 240K–250K

Claim Size Range (\$)

Claims less than the
average size account
for **75% of counts**,
but contribute
25% to losses.

Claims **over \$1M**
account for less than
0.5% of counts,
but contribute
7% to losses.

2,500

2,000

1,500

1,000

500

1M–3M

3M–5M

5M–7M

7M–9M

9M–11M

Over 11M

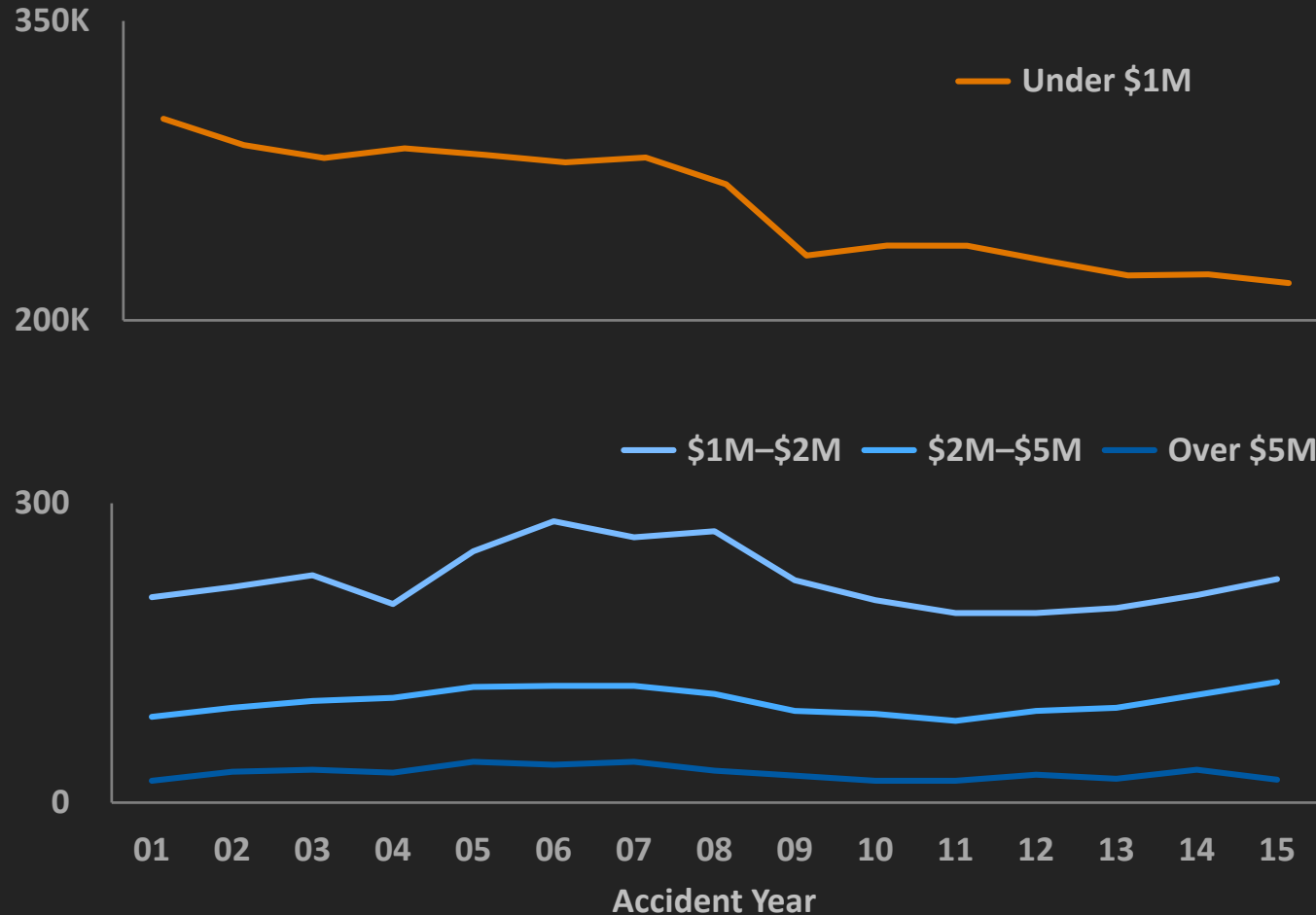
Source: NCCI's Unit Statistical Plan data; includes data for policies expiring between 2010 and 2015
Includes all states where NCCI provides ratemaking services

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Changes in Lost-Time Claims by Size

Number of Lost-Time Claims



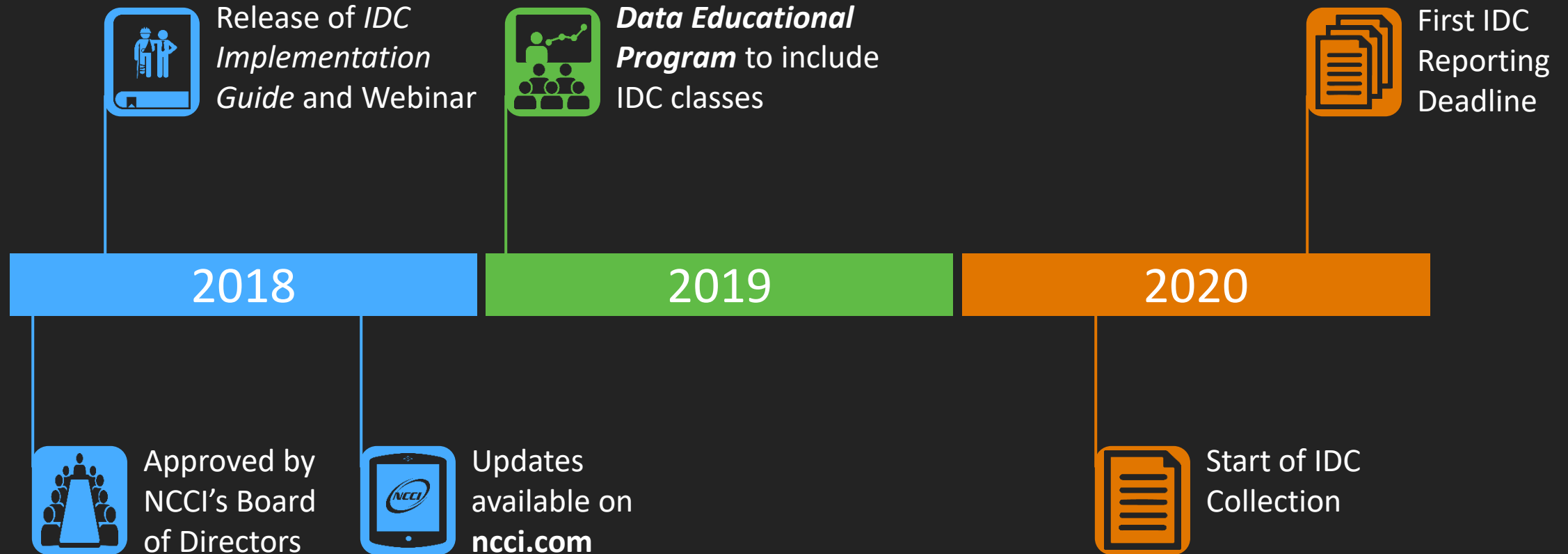
Over the last 15 years, the number of claims **under \$1M** has continued to **decline**, while the observed changes in **larger claim sizes** have been relatively **more volatile**

Source: NCCI's Financial Call data at 2nd report by Accident Year
Includes all states where NCCI provides ratemaking services, excluding TX and WV

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Indemnity Data Call (IDC)

Implementation Timeline



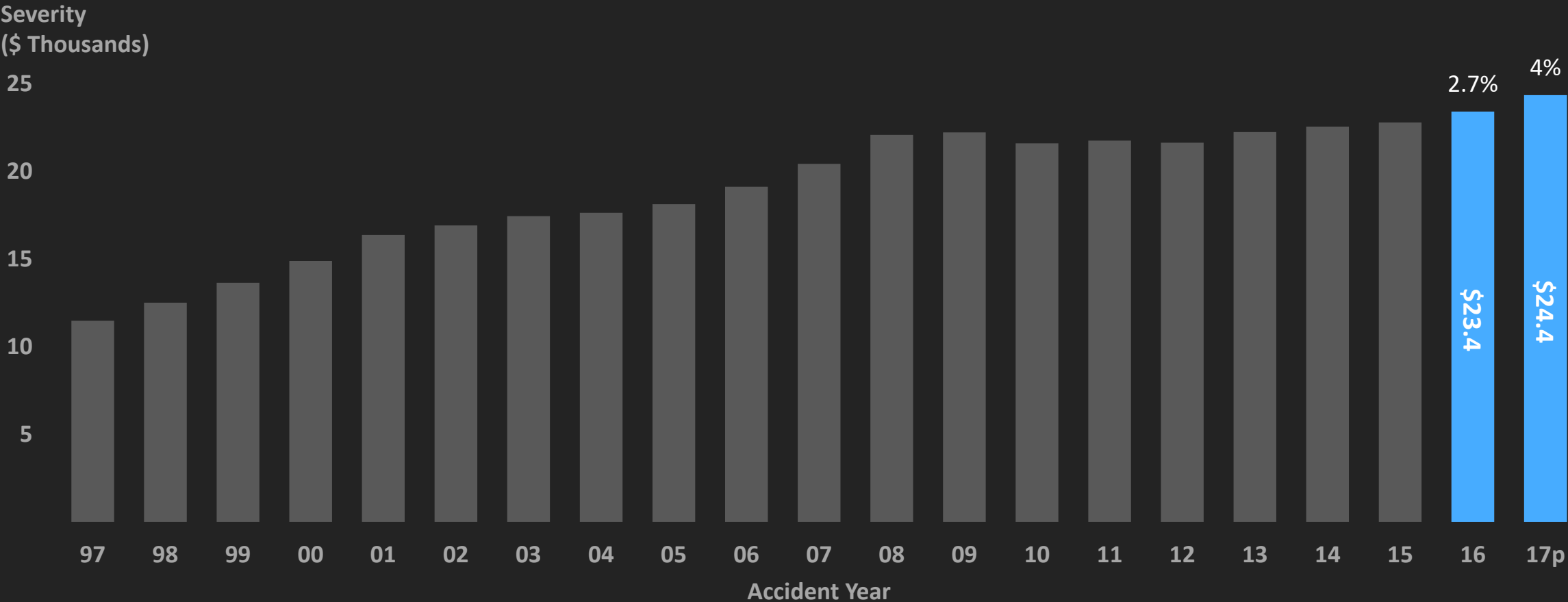
Source: NCCI Circular IND-2018-02 "Indemnity Data Call—New Indemnity Data Call Resources—Available on [ncci.com](https://www.ncci.com)"

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WC Average Indemnity Claim Severity

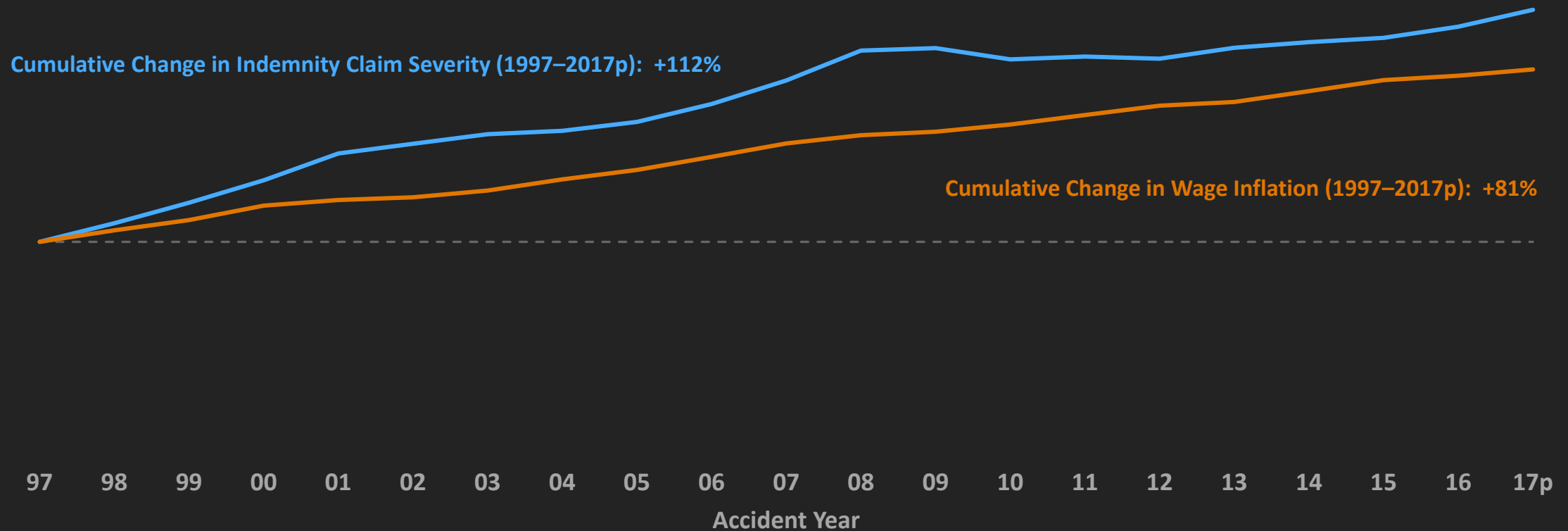
Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2017
Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016
Values displayed reflect the methodology underlying the most recent rate/loss cost filing
Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

WC Average Indemnity Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2017

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

Values displayed reflect the methodology underlying the most recent rate/loss cost filing

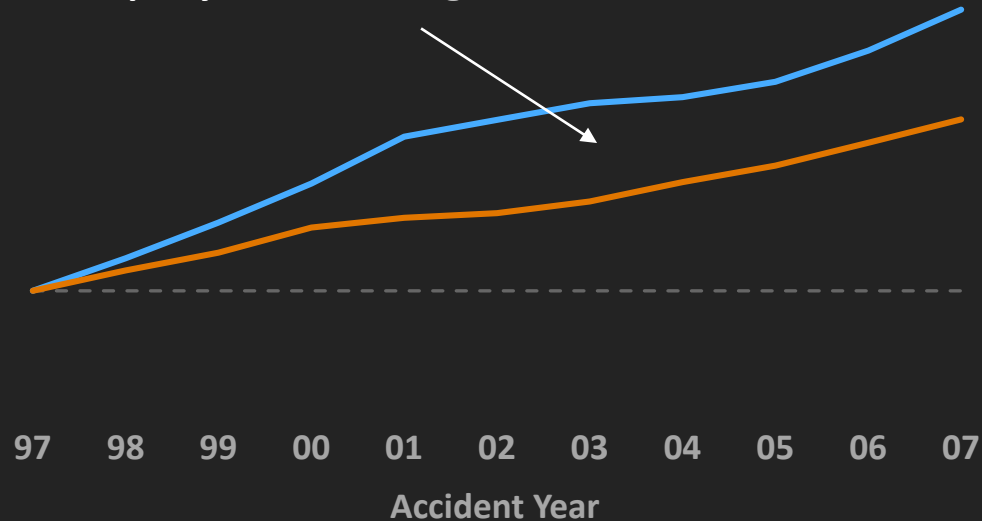
Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

US Average Weekly Wage: 1997–2007 and 2012–2016 Quarterly Census of Employment and Wages; 2008–2011 NCCI and BLS; 2017p NCCI and Moody's Analytics

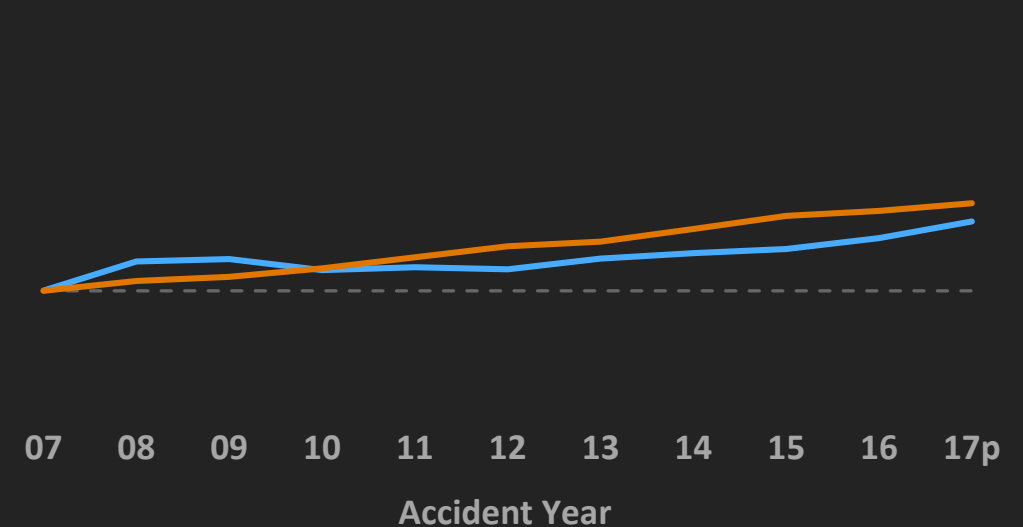
Relative Growth Rates—Indemnity Severity vs. Wage Inflation

Private Carriers and State Funds—NCCI States

Changes in **indemnity claim severity** **outpaced** changes in **wage inflation** by **1.9% per year**, on average



Indemnity claim severity and **wages** grew at a **similar rate**



p Preliminary, based on data valued as of 12/31/2017

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

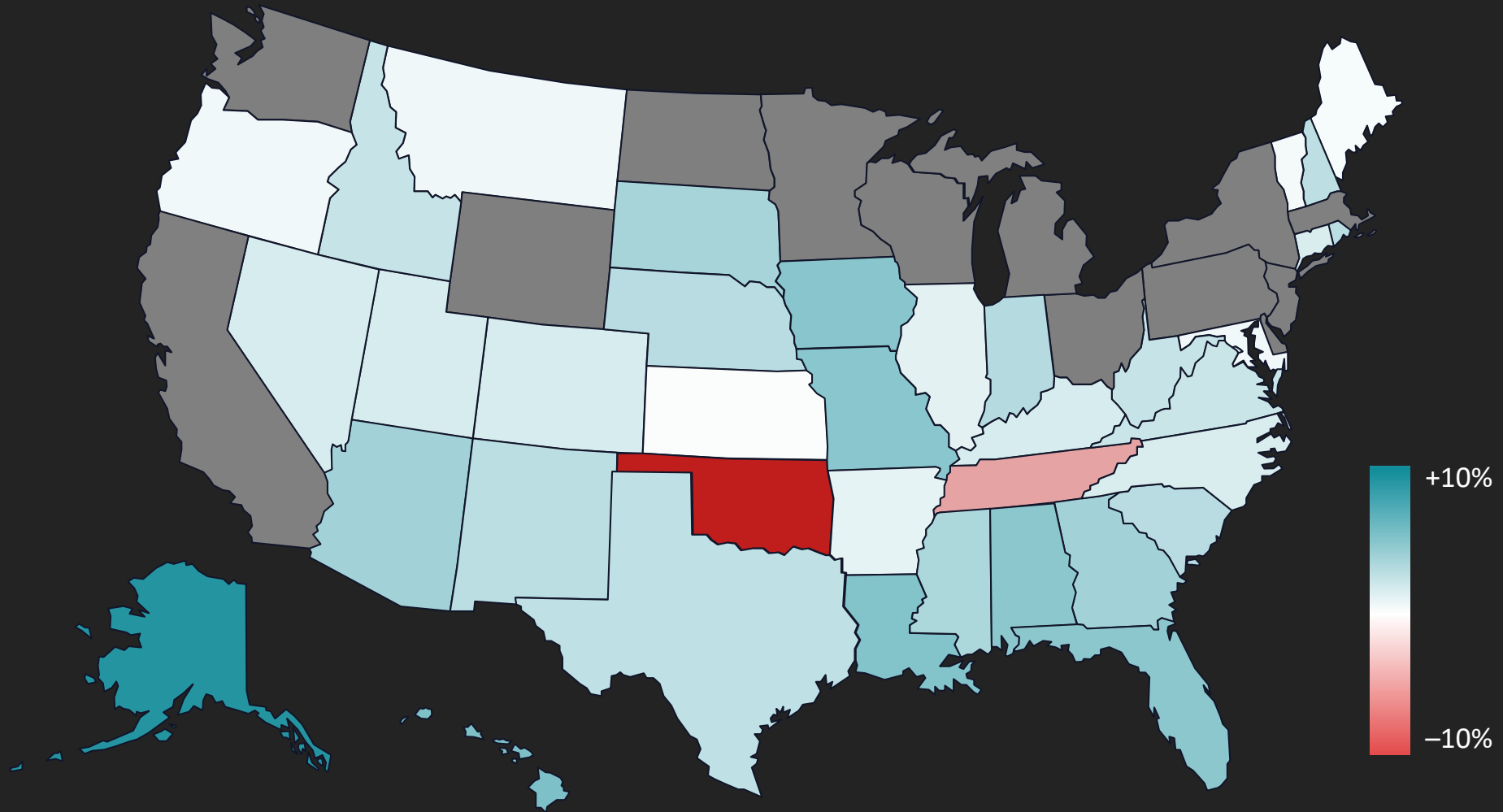
Values displayed reflect the methodology underlying the most recent rate/loss cost filing

Includes all states where NCCI provides ratemaking services; WV is excluded through 2007

US Average Weekly Wage: 1997–2007 and 2012–2016 Quarterly Census of Employment and Wages; 2008–2011 NCCI and BLS; 2017p NCCI and Moody's Analytics

WC Average Indemnity Claim Severity

Average Annual Change 2012–2016, Private Carriers and State Funds—NCCI States



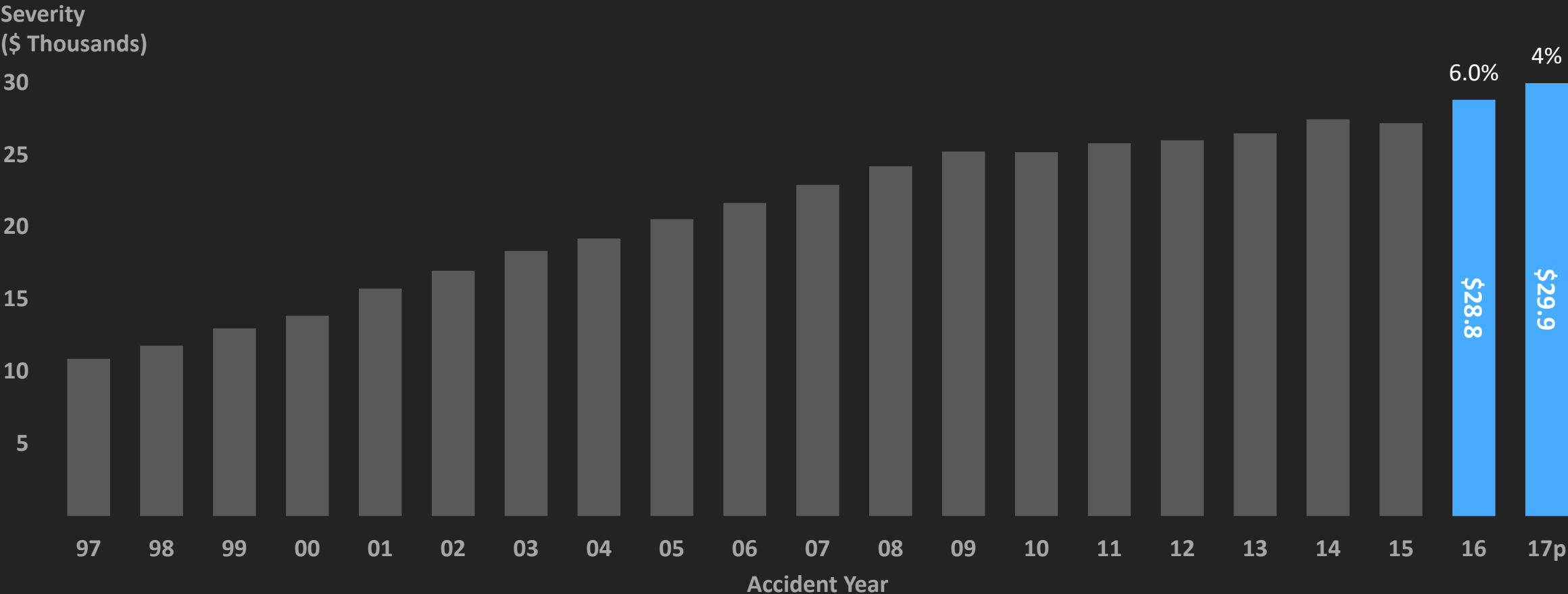
Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016
Values displayed reflect the methodology underlying the most recent rate/loss cost filing
Includes all states where NCCI provides ratemaking services

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AIS
2018
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WC Average Medical Lost-Time Claim Severity

Private Carriers and State Funds—NCCI States



p Preliminary, based on data valued as of 12/31/2017

Source: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

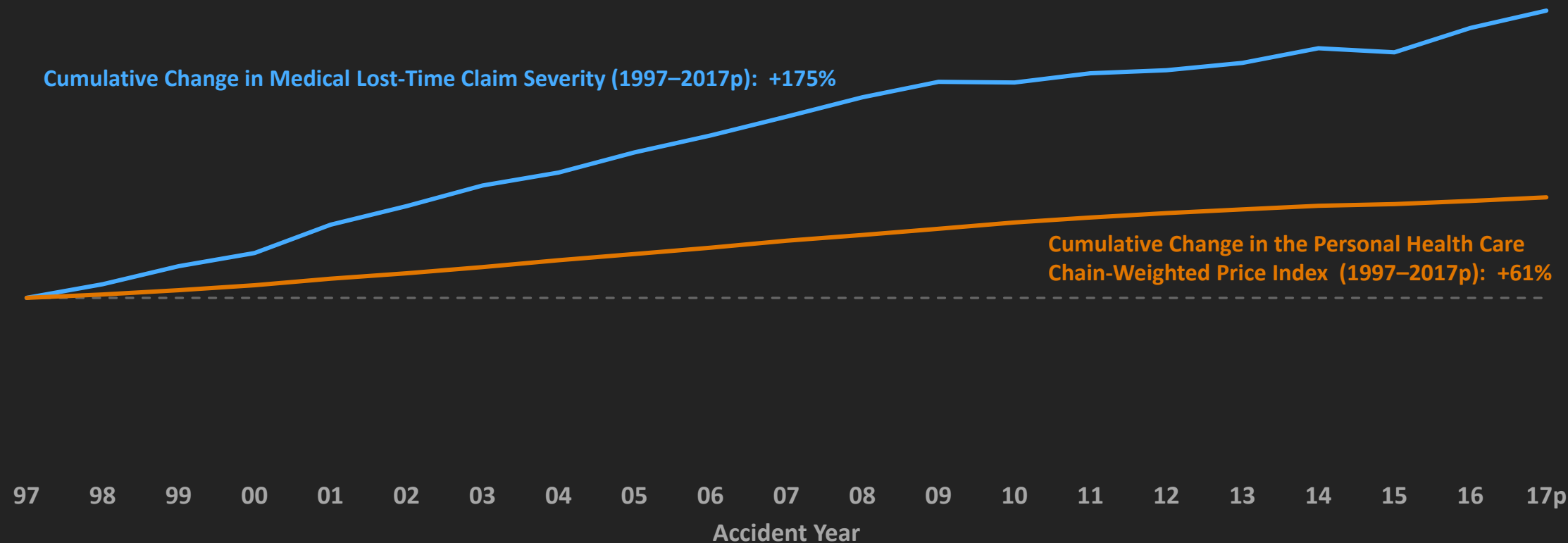
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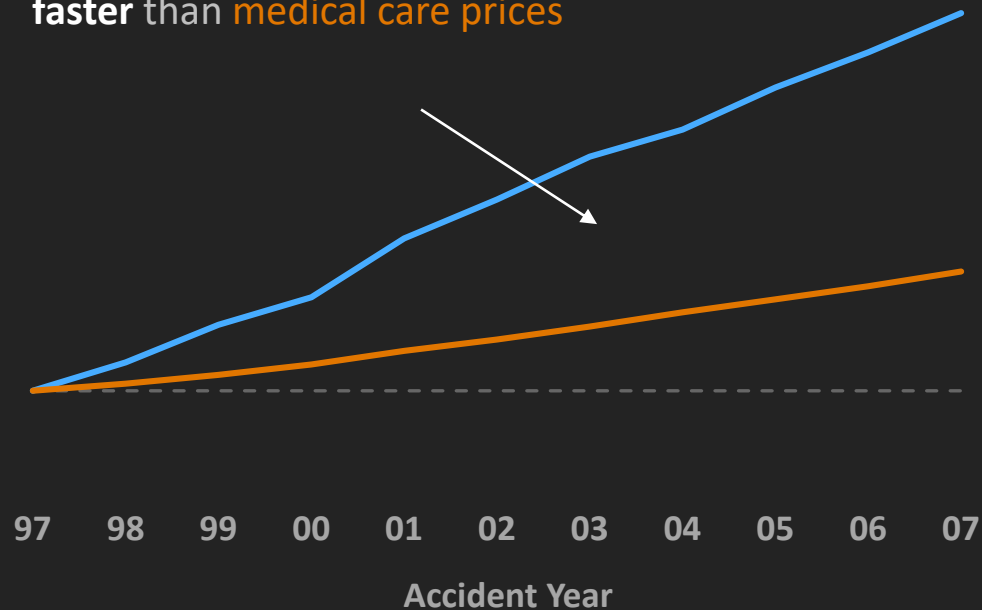
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Personal Health Care (PHC) Chain-Weighted Price Index: Centers for Medicare & Medicaid Services

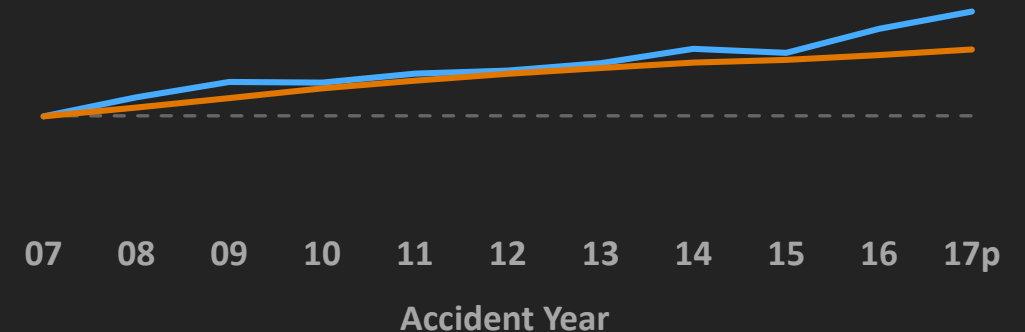
Relative Growth Rates—Medical Severity vs. Price Inflation

Private Carriers and State Funds—NCCI States

Medical lost-time claim severity
grew approximately **4.5%** per year
faster than **medical care prices**



Change in **Medical lost-time claim severity**
and **medical care prices** tracked one
another



p Preliminary, based on data valued as of 12/31/2017

Sources: Severity: NCCI's Financial Call data, developed to ultimate, excludes high-deductible policies; based on data through 12/31/2016

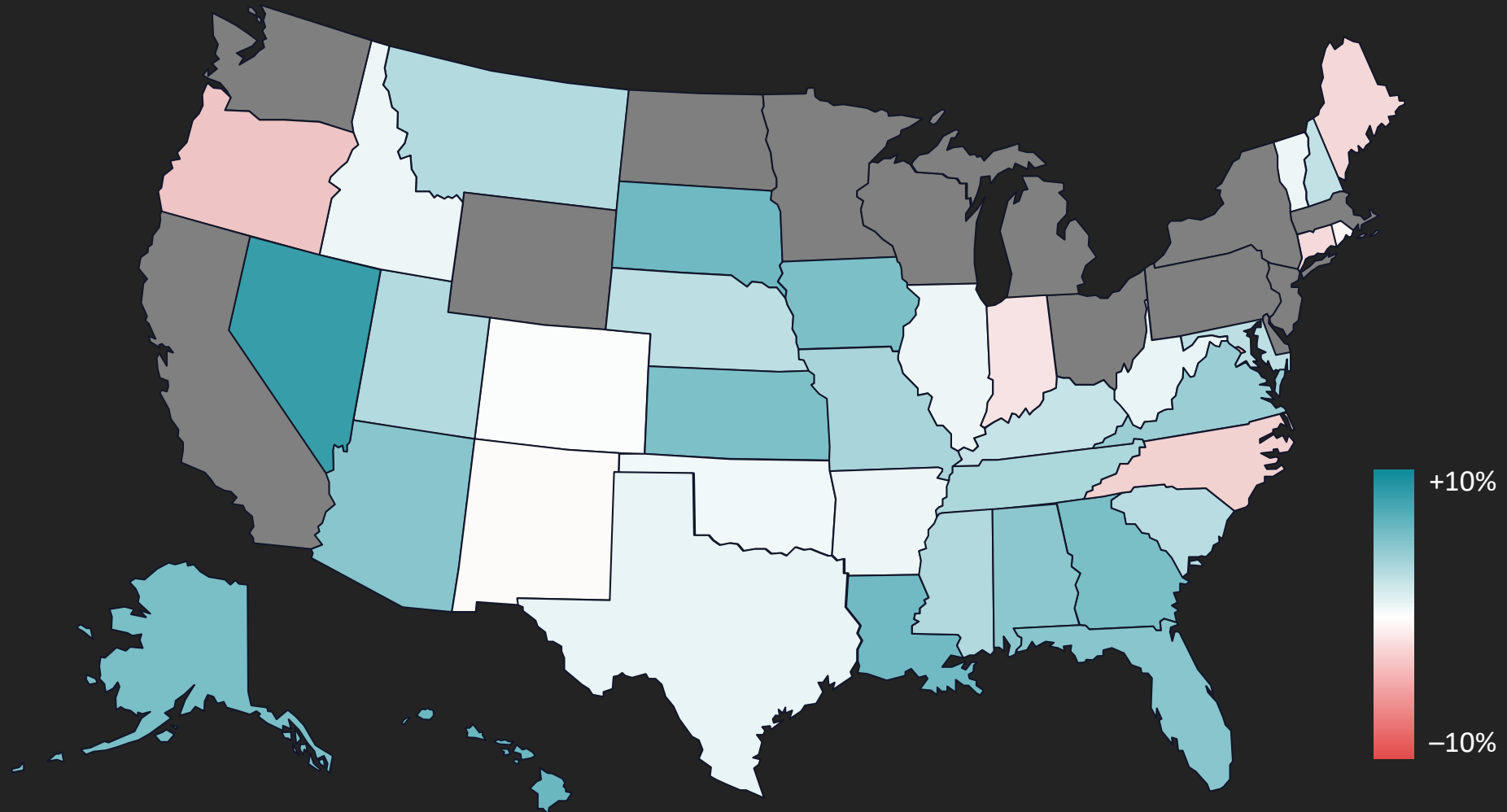
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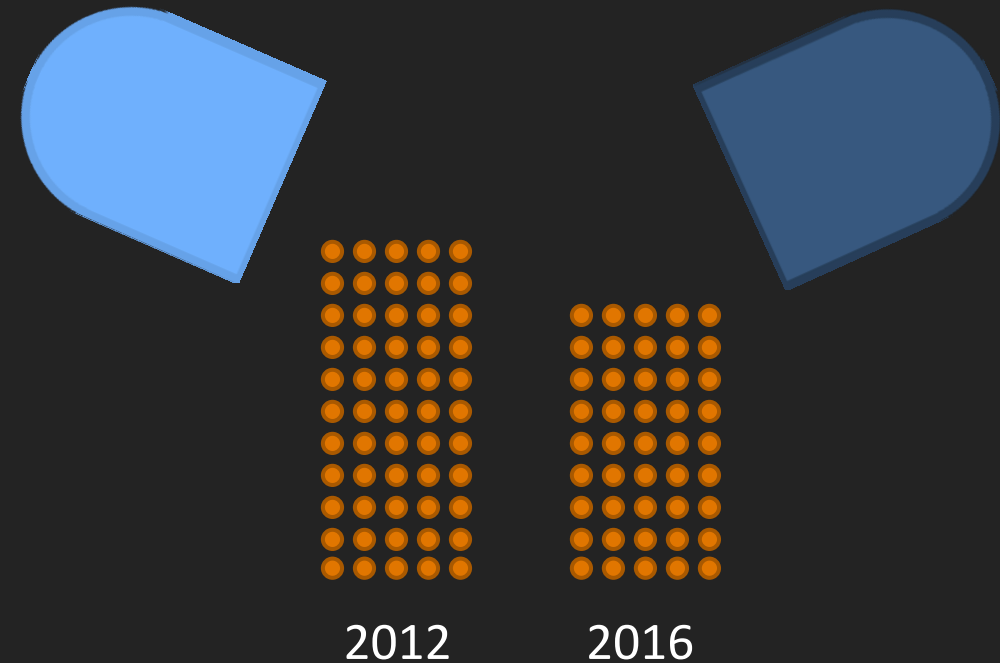
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Utilization of Opioids

The Decline in Prescribed Opioids in Workers Compensation

In **2012**, approximately **55%** of WC claimants with a prescription were prescribed an **opioid**

By **2016**, that share **decreased** to about **45%**



Workers Compensation Summary

On One Hand

- Investment income remained **below** the long-term average
- Loss costs continued to **decrease**
- Net written premium for private carriers **declined** slightly
- Lost-time claim frequency **fell** again

On the Other Hand

- Combined ratio **improved** to the lowest level in over half a century
- Payroll continued to **increase**
- Reserve position continued to **strengthen**
- Severity **increases** remained moderate

WHAT'S NEXT?

RESEARCH

Opioids—Killer Pain Relief

Marijuana—The Move to Schedule II

Impact of Provider Networks on
Workers Compensation Medical Costs

ncci.com

Indemnity Data Call Implementation

Aggregate Loss Factors (ALF) on Demand

WC Motor Vehicle Accident Research

QUESTIONS AND MORE INFORMATION

MEET THE EXPERTS

Immediately following this session

RESOURCES FOR THE STATE OF THE LINE PRESENTATION

Full presentation on **ncci.com**

State of the Line Guide on **ncci.com**

stateoftheline@ncci.com